July 7, 2003

Comments from Cambridge & North Dumfries Hydro Inc.:

**Re: Consumer Security Deposit Policies – RP-2002-0146
Proposed Amendments to the
Retail Settlement Code And the Distribution System Code:**

A) Responses to questions posed in June 10th letter from Board Secretary:

1) The first question asks whether any areas require clarification. We feel clarification is required in four areas:

   a) The definition of "disconnect/collect trip" treats this as a single visit. In many utilities, including CNDHI, a separate visit is made to the premises to attempt to collect the account prior to the Disconnect being issued.

      We would prefer the wording be changed to replace the "and" with an "or" to read: "… to demand payment of an outstanding amount or to shut off distribution of electricity … ". This would also address the seeming duplication in 2.4.10. That section currently indicates that a deposit may be requested if the customer has not received more than one disconnect notice and no disconnect/collect trip. If the customer has received a disconnect notice it would only be delivered as part of a disconnect/collect trip.

   b) The proposed section 2.4.6.1 indicates that the Distributor's Security Deposit Policy should include "methods of enforcement where a security deposit is not paid". In your letter of August 14, 2002, you indicated that the "Board has not made a determination on whether non-payment of a consumer security deposit is grounds for the termination of service pursuant to section 31 of the Electricity Act, 1998."

      Distributors need clarification on this matter. We agree with the statement that disconnection of service is a grave matter and is certainly treated as a last resort. As experience over the past winter has indicated, however, if Distributors are not permitted to enforce collection through discontinuing service, many customers – particularly those who are already collection problems – will simply not pay the required deposit.

      We would strongly urge the OEB to clarify that if legitimately required deposits are not paid, termination of service will be permitted subject to all of the normal notice requirements.

   c) Section 2.4.6.2 indicates that a distributor shall not discriminate between consumers with similar risk profiles. While this implies that the Policy should apply to all customers, it does not specifically state that the Policy should apply equally to new and existing consumers.

      We would suggest that the amendments specifically state that the Distributor's Policy must address new and existing consumers. It should

also address whether existing customers who have started service prior to the implementation of these changes can be “grand fathered” from the requirements of the new Policy.

2) The second in the list of issues listed in the cover letter (paragraph 26) asks whether 3 months is long enough to bring LDC Policies into compliance.

   While 3 months should be more than sufficient to make any required Policy changes, some of the proposed changes may require significant software changes in the LDC’s Customer Information Systems (CIS). Specifically, the requirement to use a class average for determining residential deposit amounts (section 2.4.12), the requirement to monitor and evaluate deposit requirements annually (section 2.4.23) and incorporating the new review periods and definitions of Good Payment History into the processes for this review would be expected to take at least 6 months.

B) <u>Comments on Specific Sections</u>:

2.4.9 - This section outlines the time periods to be used in assessing a consumer’s payment history in determining whether to obtain or return a security deposit.

The use of a one year review period for residential accounts, particularly combined with the rather generous definition of acceptable credit in section 2.4.10, seems to us to be too short a time period to assess a consumer’s credit worthiness. On the other hand, we find the use of 5 and 7 year time frames for non-residential and >50kW accounts to be excessive. This latter issue will not be a problem is the Distributor is allowed to establish a Policy which is less stringent than the RSC guidelines. However, if the OEB indicates that Distributors who follow less stringent guidelines may not be viewed as acting “prudently” and therefore may be unable to recover any resulting bad debts, then this would force Distributors to adopt these more stringent terms. Our current Policy is to review credit over a 2 year period for residential and small General Service accounts (<50kW) and for 5 years for GS>50kW accounts.

2.4.10 - The descriptions provided in this section of a “good payment history” seem to us to instead reflect an “Acceptable Credit History”. We would prefer to reserve the description “Good Payment History” to those consumers who pay their bills on or before the due date. As discussed in section 2.4.22, we would prefer to use this more stringent definition as the basis for returning deposits.

We also feel it is very important to add to this definition of an Acceptable Credit History to indicate that deposits may be obtained:

- Where records indicate that the consumer has left a previous final bill unpaid, or;
- A previous account had to be placed with the Credit Bureau to affect collection;
- When information from a collection agency indicates more than one previous judgement in the prior 3 years, or;

- When a customer has declared Bankruptcy, entered a Proposal under the Companies Creditors Arrangement Act or gone into Receivership in the prior 3 years.

Under these conditions, there may have been no NSF cheques, disconnect orders or visits, etc., however, the Distributor may have encountered substantial losses.

We would also recommend that the section state that the consumer has made payment arrangements that delayed a collect/disconnect visit and not kept those arrangements more than once in the past 12 months.

2.4.11 - This section states that no deposit will be required if the customer provides a letter from another utility confirming a good payment history. We would suggest that the section state that to be acceptable the letter must specify that the customer has maintained a good payment history as defined in section 2.4.10 for the appropriate period for the consumer's account type as outlined in section 2.4.9.

2.4.12 - The section bases the maximum amount of deposit that may be required for a residential consumer on the "average load for the class or subclass in the distributor's service area …".

We would urge that the section be changed to use the same approach as is used for non-residential consumers in section 2.4.13. Where the Distributor has history for the consumer or the service address, the deposit calculation should be based on that history. Where usage information is not available, then the average usage for the class should be used as per the process outlined in 2.4.12. If the consumer is living in or moving into an apartment or an electrically heated home, the previous usage at that location is a far better indicator of future use, and hence risk, than the average for the class. Using a class average may result in a consumer being required to pay a deposit that is either much too high or much too low. This requirement would also require software changes to program the calculation based on class or sub-class averages rather than customer or service history.

2.4.12 - To avoid the need to make future changes to the RSC, we would suggest that the reference to the 4.3 cent per kWh price for low volume consumers be removed. We suggest instead that the section simply indicate that the calculation for the commodity component be based on the rate used by the IMO, or such other fixed rate as may be put in place for the consumer through government legislation or regulation. This would avoid the need to amend the RSC if the specific price is changed or variations to the price are introduced.

2.4.20 - This section allows the consumer to pay a Deposit in instalments over a period of up to 4 months. This requirement leaves the Distributor exposed during this initial period of service or immediately following a collection problem involving a disconnection or returned cheque – times when many bad debts are incurred. We recommend that the wording be changed to indicate that the instalments should be made such that the consumer provides payments that will provide security in advance of usage over that period.

2.4.21 - The process for paying interest on deposits, as outlined in this section, would result in the utility paying out interest annually at a rate that exceeds what the Distributor would reasonably earn on the deposit. We would recommend that the wording be changed to allow the Distributor to apply interest to the account annually to reflect increases in usage and costs. Given that the Distributor will be required to review Deposits annually, if the accumulated interest results in an amount exceeding needs, the Distributor would return any excess to the consumer. This would reduce administrative costs and should not result in any significant loss to the consumer, particularly if the majority of deposits are only held for one year.

The requirement to pay interest at the Bank of Canada Prime Rate will impose a cost on the Distributor which will, in turn, need to be borne by other consumers. We currently earn interest at a rate from 1.85% to 2.25% below our Bank's Prime Rate. Presently the Bank of Canada Prime rate is 1.5% below our Bank's prime. As a result, we would lose 0.35% to 0.75% on the total value of cash deposits held (currently $817,000). This change would therefore result in an additional cost to our utility to pay consumers interest which the utility did not earn. We assume that this cost would need to be borne by our other consumers who had maintained Good Payment History's and therefore were not required to pay a security deposit.

We would recommend that the wording be changed to require the Distributor to pay a rate of interest equal to that earned by the Distributor.

2.4.22 - The section indicates that where the consumer develops a good payment history that they can request the return of their deposit. We would prefer that the return of the deposit be based on more stringent requirements than those used to initially obtain the security. In other words, having established a poor credit history that required the Distributor to obtain a deposit, there should be an obligation to establish that the consumer's payment history has improved significantly, not just marginally, before the deposit is returned. Using the current wording, with consumers given up to 4 months to pay a deposit and residential deposits returned after 1 year without a disconnect visit, then we expect we will invest a great deal of time repeatedly obtaining deposits from the same consumers. For example, an existing consumer who receives a disconnect visit would be requested to pay a deposit. The consumer could then take 4 months to pay the deposit. If the consumer has no disconnect visits for 12 months (8 months after we have the full deposit), we would be obliged to return the deposit. Through this period, the consumer may have been late in paying his bill, made and broken payment arrangements, received collection notices and calls, etc. but not had an actual disconnect visit. If the consumer then receives a disconnection visit, the cycle would start all over again.

We would strongly urge that the criteria for returning deposits be based on a much improved credit history. Our current criteria for returning deposits is that the consumer have what we define as a Good Payment History - no amounts past due over the period (ie. all bills are paid on or before the due date).

Some direction should also be provided, either within the section or through direction from the Board, on treatment of customers who placed a deposit with the Distributor prior to these changes. If the consumer was advised at that time that the deposit would be held for a period less than specified in the amendments, should the Distributor return the deposit based on the new timelines or those in place when the deposit was obtained. This becomes a particular concern if the Board requires adherence to these new terms in order to be viewed as "prudent".

Submitted by:

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