

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*,  
S.O. 1998, c. 15 (Sched. B);

**AND IN THE MATTER OF** a proceeding pursuant to  
subsection 74 of the *Ontario Energy Board Act, 1998*  
to amend the Distribution System Code and Retail Settlement Code.

**SUBMISSION OF HYDRO ONE INC. UTILITIES REGARDING  
THE BOARD'S PROPOSED CHANGES TO THE TREATMENT  
OF CONSUMER SECURITY DEPOSITS**

## **HYDRO ONE'S SUBMISSION ON THE BOARD'S PROPOSED CHANGES TO THE TREATMENT OF CONSUMER SECURITY DEPOSIT POLICY**

The Board proposes to amend sections of the Distribution System Code (and consequently, the Retail Settlement Code) in order to effect greater consistency in the treatment of consumer security deposits by electric utilities across the Province. It accordingly has requested comments on these proposed changes. The following is the submission of the utilities of Hydro One Inc. – Hydro One Networks Inc. (“Networks”), Hydro One Remote Communities Inc. (“Remote Communities”) and Hydro One Brampton Networks Inc. (“Brampton Networks”) on this issue.

### ***Issues Related to Security Deposits***

Prior to its responses to the Board's questions, Hydro One wishes to address several additional issues related to this question – deposit retention periods and refunds, the calculation of interest, the treatment of embedded LDCs, LDCs' enforcement capabilities and the recovery of incremental costs associated with the implementation of the eventual Code changes.

### ***Deposit Retention Periods and Refunds***

Hydro One believes that the Board's proposal for LDCs to refund larger customers' security deposits after seven years of good payment history (in sections 2.4.9 and 2.4.22) is not well-founded. A seven-year good payment history does not obviate the original purpose of the security deposits, which is to protect the LDC in the case of a potential default from that customer, which could happen at any time. Recent history demonstrates that businesses which have had many years of good payment history can face financial difficulties relatively suddenly. Brampton Networks experienced this type of exposure with the loss of one large customer, which due to their good payment history for a number of years, had not been asked for a security deposit. Large businesses and industrial customers and accordingly, the utilities which serve them, are exposed to risks over their entire connection period.

Furthermore, the potential losses associated with these individual customers are considerably more material to the utility's financial well-being than those of smaller customers. One large customer which ceases business or runs into difficulties and defaults on its payments following the refund of a deposit, could leave a utility at risk. If a significant business customer defaults, this places a burden on the utility and its remaining customers. The Board notes in its August 14<sup>th</sup> 2002 letter on this issue, that decisions on the recovery of bad debts would be subject to rate-making considerations including materiality, management's ability to control, prudence and the cause of the expense. Hydro One submits that refunds of large customers' security deposits according to an arbitrary timeline, in effect, “hobbles” a utility's ability to control and proactively manage the default risk.

The utility's capability to exercise some discretion regarding refunds of deposits for large customers, therefore, is essential. Hydro One strongly recommends a retention period which aligns with the risks posed by the specific accounts. This could mean retention of the deposit for the life of the account.

### *Interest Calculation*

Hydro One submits that the Board's proposed interest rate for application to the security deposit holdings (the Bank of Canada's Prime Business Rate, as noted in section 2.4.21) is excessive. We would suggest as an alternative, the savings account rate of the individual utility's prime lender (in Hydro One's case, the TD Bank). We recognize the Board's wish to use one published rate, but believe that use of the Bank of Canada's borrowing rate is harsh for LDCs and rewards customers inappropriately.

The use of Class A banks' savings account interest rates, on the other hand, would pay customers similar rates to what they would attain on their own savings accounts, holding them harmless vis-à-vis other alternatives for use of their funds. Networks and Remote Communities currently follow this approach. Such rates are generally consistent across the banks and their application to security deposits is generally typical of utility practice as we understand it. Furthermore, these rates are also published on the banks' web-sites, making them readily available to consumers.

### *Treatment of Embedded LDCs*

Networks currently is a host distributor to a large number of embedded LDCs which are its customers and not wholesale market participants. We bill them in the range of \$180 million for commodity and other regulated charges, annually. Other utilities are also host to such embedded LDCs. Host utilities are exposed to the risk of default on payments by these embedded LDCs, similarly to the risks faced by the IMO in its relationship with market participants. Hydro One submits that a statement should be added to the Code, where appropriate, to the effect that "prudential obligations to host distributors from embedded LDCs (which are not market participants), should be calculated in a manner similar to that used by the IMO to calculate prudential obligations for other LDCs." Networks currently follows this practice, which we believe appropriately represents the net exposure arising from embedded LDCs' potential default on the charges noted above. As such, this position aligns with what host LDCs must pay to the IMO on behalf of their embedded utilities. Further, this approach would ensure that embedded LDCs which are registered wholesale market participants, are not provided an incentive through the application of prudentials, to alter their status in the wholesale market.

### *Utilities' Enforcement Capabilities*

Section 2.4.6.1 of the proposal states that one item which must be included in a distributor's policy on security deposits is the "methods of enforcement where a security deposit is not paid." However, the Board's proposed changes do not further address the question of enforcement, leaving LDCs without the explicit capability to collect deposits,

in the case of a customer's refusal to pay. The Board had stated, in its August 14<sup>th</sup>, 2002 memo, that it had not made a determination on whether non-payment of a consumer security deposit is grounds for termination of service. We submit that customers with deposits owing must be given an incentive to pay them. The Board must provide clear guidance on LDCs' capability to enforce their authority on this issue.

### *Cost Recovery*

Implementing these changes will require some process and system alterations. Hydro One asks the Board to clarify its expectations regarding the treatment of associated costs for recovery purposes, given the current rate conditions.

### ***Responses to the Board's Questions***

The following are the responses of Hydro One's utilities to the questions posed by the Board:

1. *Are there any sections in the proposed amendments that require clarification?*

Hydro One submits that there are two areas requiring clarification. One is the issue of enforcement guidelines, which as discussed previously, must be addressed. The second is the extent to which utilities' practices under these rules will be considered prudent, which we have raised in response to Question 3, below.

2. *Is 3 months an appropriate period of time for LDC's to bring their security deposit policies into compliance and properly communicate those changes to their customers? If not, explain how much time is required and provide a rationale.*

Three months would not provide many utilities with sufficient time to ensure compliance of their policies with the eventual changes to the Codes. In determining the time frame necessary, several factors need consideration:

- The standard utility practice for notifying customers of a change in conditions of service has been three months. Networks would prefer to notify its customers through a message on, or accompanying, their bills, which is both the most effective and least expensive option for such communications. However, it will take the full three months to complete notification through the billing cycle for many customers. Therefore, the last customer notified would have no period between notification and implementation of this change.
- Changes in Code conditions will necessitate some system changes.
- Full compliance with the new Code conditions will likely necessitate credit checks on large numbers of customers.

- Call Centre staff must also undergo training, to be able to discuss the changes with customers.

Accordingly, even with overlap of activities, three months does not provide enough time. We submit that bringing our policies and practices into compliance with the new Code conditions within five months would pose a challenge. We accordingly request the Board to allow the five months we believe are needed.

3. *As noted above, the focus on maximum requirements is to prevent an LDC from being forced to require consumers to post a security deposit or pay a higher deposit than an LDC already requires. Has this goal been accomplished?*

Hydro One appreciates the Board's desire to ensure consistency and yet allow utilities some discretion regarding 1) whether their customers should post security and also 2) the amount of security they may require. These two issues are addressed in sections 2.4.9, 2.4.12 and 2.4.13 of the proposal. However, section 2.4.6.2 of the proposal states that "A distributor shall not discriminate among consumers with similar risk profiles or risk-related factors except where expressly permitted under this Code." The Board, therefore, must be more direct as to the requirements that LDCs must meet in these two areas, to ensure a clear and consistent understanding of what will constitute prudent behaviour and also to help prevent potential complaints of discriminatory treatment. We submit that the Board should institute the eventual Code directions on these two issues as prescriptive standards, rather than maximum requirements. This could be achieved through the use of the words "shall require" rather than "may require" in sections 2.4.9, 2.4.12 and 2.4.13.

4. *Consumer deposits would be reviewed and updated annually by each LDC. Would such a requirement have implications for any LDCs? If so, please explain.*

Networks and Remote Communities review and update their security deposit requirements annually (or in the interim, if requested by a customer). They accordingly, would be in compliance with the requirements posed in section 2.4.23. However, the Board should clarify that the requirement for annual reviews will mean, not annually on a customer's anniversary date, but simply once a year (unless at the customer's request). Otherwise, reviews of all deposits on all anniversary dates would entail daily reviews for large numbers of customers, requiring further system changes and significantly adding to the cost of the activity.

Brampton Networks would require new process and system functionality to support the implementation of this requirement.

5. *Consumers would be able to provide a GPH reference from any other Ontario utility. Would this have any implications for any LDCs including the requirement to provide the reference? If so, please explain.*

The use of other Ontario utilities' reference letters to establish a customer's GPH has two considerations – the assurance that they provide a valid credit reference and the form of reference which may be provided.

Hydro One does not have an issue with the use of reference letters from other Ontario utilities as a credit check, given the conditions provided.

Regarding the second issue, Hydro One's utilities currently provide references for customers, albeit in two different ways. Networks and Remote Communities automatically provide a reference on the customer's final bill (noting the customer's good payment history), which the customer may provide to another utility. Our preference is to continue with this approach as we believe that it accomplishes the objective without incurring incremental costs or charge to the customer. Where we are asked to provide a customer with a reference letter, we do so, at the Board-approved charge of \$15.00 (for an Arrears Certificate). Brampton Networks currently will provide a customer with a reference letter on request at a \$15.00 Board-approved charge. We therefore, request that the Board allow the flexibility in the Code to enable LDCs to continue with their current approach.

6. *Is there a more specific definition of what constitutes an acceptable credit check required in the code?*

No, we believe that the current definition is sufficient.

7. *Is the method for calculating a security deposit for non-residential <50 kW consumers using consumer-specific average consumption appropriate or would the use of a class (and/or sub-class) average usage be more appropriate?*

Due to the number of customers for whom Hydro One utilities may have to provide this calculation, we would prefer the use of a class or sub-class average rather than consumer-specific, usage.

For further clarification on its customer classification, Networks proposes the following treatment of its farm customers:

- Farm customers receiving rural and remote rate assistance should be treated similarly to residential customers.
- Those not receiving rural and remote rate assistance should be treated as non-residential customers (who consume less or more than 50 kWh, as appropriate).