



Mr. Paul Pudge, Board Secretary
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Reference: Consumer Security Deposit Policies - File # RP-2002-0146

Dear Mr. Pudge:

Please accept this as London Hydro's written submission with respect to the proposed code amendments. We would like to take this opportunity to comment on some of the issues within the proposed amendments to the Distribution Code and the Retail Settlement Code. They are as follows:

- Ref. 2.4.9 – Good Payment Exemption

The Board proposes that “a distributor may require a security deposit from a consumer who is not billed by a competitive retailer under retailer-consolidated billing unless the consumer has a good payment history of one (1) year in the case of a residential consumer...”

Our concerns with these provisions are as follows:

As London Hydro reported previously, one (1) year for residential consumers does not allow sufficient time to substantiate a good payment record. London, like many other municipalities, is a very transient city with a large student population.

The Board proposes that “ security deposits for non-residential consumers <50kW be held for 5 years and for non-residential consumers >50kW they be held for 7 years.” The Board has stated that these requirements are consistent with the gas industry and they “protect the interests of consumers with respect

to prices and reliability and quality of electricity service” and that they “facilitate the maintenance of a financially viable electricity industry”.

Our concerns with these provisions are as follows:

For the average electric distribution company, approximately 85% of the total amounts billed to customers are related to the commodity portion of the bill and the remaining 15% represents the distribution charges of the distributor.

Due to the significantly different levels of consumption between the residential and non-residential customer classes, for the residential customer group at London Hydro, 34% of total consumption is residential while 63% of total distribution revenue is residential. Thus 66% of total consumption (commodity billed) is non-residential versus only 37% of distribution revenue.

The above data indicates that for the non-residential customer groups, there is a much higher level of commodity credit risk. Bad debts, if they occur in this group, will tend to be significantly higher in monetary value on a per customer basis, and future recovery of these amounts through rates will in all likelihood be shared to a very large extent by the residential class.

It is our position that security deposits on non-residential accounts, should not be returnable until the customer leaves the system. Return of these deposits after 5 or 7 years places an undue burden and risk on the residential class, and it threatens the financial viability of the electric distribution industry.

- Ref. 2.4.10 – Good Payment Record

The Board proposes that “ for the purposes of section 2.4.9, a consumer is deemed to have a good payment history if, during the time period set out in section 2.4.9, the consumer has received no more than one disconnection notice from the distributor, no cheque given to the distributor by the consumer has been returned for insufficient funds, no pre-authorized payment to the distributor has been returned and no disconnect/collect trip has occurred. If any of the preceding occurs due to an error by the distributor, the consumer’s good payment history shall not be affected.”

Our concerns with these provisions are as follows:

The reference to “one disconnection notice” requires clarification. Does a mail out final notice suffice as a “one disconnection notice”?

- Ref. 2.4.11 (b) – Credit Check

*The Board proposes that “despite section 2.4.9 a distributor shall not require a security deposit where a consumer provides:.....
(b) a satisfactory credit check made at the consumer’s expense.”*

Our concerns with these provisions are as follows:

Clarification is required – what does satisfactory credit check mean? We propose that the OEB define a credit score from a credit agency as the satisfactory credit check. As an alternative, suggest that each LDC establish a well defined credit score in accordance with their credit check service provider.

- Ref. 2.4.21 – Interest on Deposit

The Board proposes that “interest shall accrue monthly at the Prime Business Rate as published on the Bank of Canada website on security deposits made by way of cash or cheque” “Interest accrued shall be paid out at least once every 12 months”

Our concerns with these provisions are as follows:

Clarification is required as to whether the interest calculation is simple or cumulative.

Distributors should be permitted to apply the interest to the customer’s current account as opposed to issuing cheques. This option would simplify the administrative process and reduce costs, which are ultimately passed on to the ratepayers.

The requirement to calculate interest monthly is an onerous task that should be revised to at least a quarterly process.

The Prime Business Rate published by the Bank of Canada as at July 2,2003 is 5.0%. The 1 year GIC rate at the Toronto Dominion Bank as at July 2,2003 is 1.75%.

We believe the Board’s recommended rate payable on security deposits is excessive, particularly so when it incorporates a monthly calculation. It is our belief that any customer fortunate enough to have surplus funds would be more than eager to invest those funds with the utility at the rates proposed.

We fail to see the Board’s logic behind the selection of this rate, which differs significantly from the requirements of the former regulator Ontario Hydro. The former rate, and the one currently being paid by most utilities, was the equivalent of the utilities savings account rate at the utilities bank, which would be in the range of 1.25%.

- Ref. 2.4.23 – Yearly Deposit Review

The Board proposes that “a distributor shall review a consumer’s security deposit at least once every twelve months to determine whether the entire amount of the security deposit is to be returned to the consumer as the consumer has developed a good payment history which would have been sufficient under section 2.4.9 to exempt the consumer from the obligation to pay a security deposit or whether the amount of the security deposit is to be adjusted based on a re-calculation of the maximum amount of the security deposit under section 2.4.12 or 2.4.13.”

Our concerns with these provisions are as follows:

Given the volume of deposits and the number of customers that we currently have, this would add a significant cost to our operations on an annual basis; this process would also require billing system modifications, adding further to capital expenditures.

In response to “areas or issues that the Board staff have identified that further input by the stakeholders may be useful”, London Hydro’s responses are as follows:

- 1) See above for amendment’s notes & clarification requirements.
- 2) London Hydro would require approximately 6 months to bring our security deposit policy up to date, due to the system modifications required, letter/application changes, communication and training of our staff & customers.
- 3) Yes.
- 4) Due to London Hydro’s customer base, this function would have to be automated in our Customer Information System (CIS). Significant enhancements would have to be made in our CIS. This would require capital expenditures and time to develop and implement the functionality.
- 5) This is our standard practice and it is not going to be burdensome in the future.
- 6) Yes.
- 7) General Service Customer usage varies greatly. The deposit calculation should be based upon using the customer specific average consumption.

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