



MILTON HYDRO DISTRIBUTION INC.

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July 7, 2003

Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 26th Floor
Toronto, Ontario
M4P 3E4

Dear Sir:

Re: File# RP-2002-0146

Milton Hydro Distribution Inc. ("Milton Hydro") appreciates having had the opportunity to be involved in the working group assigned to consider stakeholder input regarding consumer security deposits. We have reviewed the proposed amendments to the Distribution System Code and the Retail Settlement Code and offer the following comments:

LDC Prudence

Milton Hydro accepts that "an all-inclusive definition of prudence is problematic in a quasi-judicial environment"¹. However, it is important for the OEB to provide some reasonable assurance to distributors who apply the proposed (maximum) security deposit requirements (or can provide rationale acceptable to the OEB for deviating from these maximum amounts) and follow acceptable collection practices, that any consumer default amount in excess of any security deposit is recoverable. The OEB needs to provide clarity of its intentions and confirmation of the recovery mechanism. It is assumed in the following where the LDC has been deemed prudent, the LDC shareholder(s) is saved harmless.

Balancing Interests

In a letter dated June 10, 2003, the OEB stated, "the option for large volume consumers is designed to balance the interests of LDCs and large volume consumers"². We may partially agree with this statement if LDC interests are confined to cash flow.

¹ OEB Electricity LDC Consumer Security Arrangements, A Discussion Paper, September 20, 2002

² OEB Consumer Security Deposit Policies RP-2002-0146, June 10, 2003

Fundamentally, given prudence, and excluding any cash flow impacts, LDCs should be indifferent to whatever deposit policy is prescribed by the OEB providing default amounts can be recovered. Taking this to the extreme, Milton Hydro would support having the OEB prescribe that no deposits are required from any customers. The overriding concern of the OEB with regard to balancing interests is not between large volume consumers and LDCs, it is between defaulting consumers and non-defaulting consumers.

Who Pays?

Milton Hydro accepts the OEB's comment regarding their awareness "of other broader issues related to market design"³. It is therefore assumed for these purposes, given LDC prudence, that default amounts will be recovered solely from non-defaulting consumers within the LDC's community⁴.

Specifically, with regard to OEB's proposals relating to large consumers (> 50 kW), we have concerns due to the financial impact of potential defaults on non-defaulting consumers. In Milton, consumers with demand greater than 50 kW comprise approximately 70% of our total wholesale market revenue requirement. Twelve (12) of these large consumers (consumers with demand > 1000 kW), represent 41% of our total wholesale market revenue requirement.

- Is it the intent of the OEB to have default amounts from the large customer (>50 kW) class be recovered from all non-defaulting consumers? Or from its specific class or sub-class?
- Has the OEB considered dividing the large customer (>50 kW) class into sub-classes for the purposes of determining maximum security deposits?
Industrial/commercial customers who are wholesale market participants receive a maximum of 25% reduction in their security requirements for a good payment history of 5 years or more which provides recognition that good payment history is not a high probability indicator of future payment – given that all consumers can choose to be wholesale market participants and that this is a realistic option for the large consumers > 1000 kW, inconsistency with the wholesale market would seem unreasonable. Sub-dividing in this fashion would support "symmetry amongst consumers in Ontario's wholesale and retail markets"⁵.

Non-payment of Security Deposit

In our letter to the Board Secretary dated July 4, 2002, Milton Hydro requested confirmation that in the event a customer fails to post the necessary security deposit, normal collection of arrears procedures would apply, including the disconnection of service. The proposed amendments dealing with Consumer Security Deposits are silent

³ OEB Consumer Security Deposit Policies RP-2002-0146, June 10, 2003

⁴ Other forums may consider the use of the current wholesale residual risk pool or a retail residual risk pool for a broader recovery of default amounts.

⁵ OEB Electricity LDC Consumer Security Arrangements, A Discussion Paper, September 20, 2002

with respect to this issue. If LDCs cannot disconnect for non-payment of security deposits as they can with other arrears, having the payment of security deposits be a voluntary act by consumers would be of no value to the marketplace. If the OEB is not prepared to support disconnection for non-payment of deposit, then Milton Hydro recommends that no consumer deposits be permitted in the retail market.

Good Payment History – section 2.4.10

Milton Hydro does not support the recommendation of no more than one disconnection notice during a 12-month period as evidence of good payment history. It is recommended that the amendment should read, "...the consumer has received no disconnection notice from the distributor ..."

Interest on Deposits – section 2.4.21

Milton Hydro receives interest at prime less 1.75% on cash balances in bank savings account. To pay more than bank interest would be inappropriate. It is not clear why prime is being proposed. If this is an attempt to reflect the cost of working capital, the OEB would better consider cash security deposits amounts in establishing the LDCs working capital allowance included in rates.

Maximum Security Deposits

Milton Hydro supports a more prescriptive approach in determining security deposits than the proposed maximum-security deposit . This approach does not support symmetry between consumers throughout the province or between LDCs. It also potentially provides an opportunity for the LDC to "bonus" certain customers or customer groups in support of other goals such as economic development within the community, a practice, which is no longer permitted by municipalities. A more prescriptive approach would also facilitate any Board deliberations with regard to LDC prudence and also provide LDCs with greater certainty on this matter.

If you have any questions, please call myself or Mary-Jo Corkum, VP, Finance. We have attached our prior communication to the OEB regarding security deposits.

Yours truly,



Don Thorne, P.Eng.
President/CEO

Encl.