

July 9, 2003

Paul Pudge
Board Secretary
Ontario Energy Board
P. O. Box 2319
2300 Yonge Street, 26th Floor
Toronto, Ontario M4P 1E4

**Re: North Bay Hydro Distribution Limited
Licence Number ED-1999-0107
Consumer Security Deposit Policies
Board File No. RP-2002-0146**

This is in response to your letter of June 10, 2003 on Consumer Security Deposit Policies. The Notice of Proceeding requested a response by 4:30 pm July 10, 2003.

This is filed by North Bay Hydro Distribution Limited located at 74 Commerce Court, North Bay, Ontario P1B 8Y5. I can be reached by telephone at 705-474-8100 ext. 310, by fax at 705-495-2756 and by email at kjenkins@northbayhydro.com.

Firstly, we should state that North Bay Hydro Distribution Limited was not part of the working group and had no input into the process until now. The main purpose of our submission is the financial risk it may place on North Bay Hydro Distribution Limited and poor customer relations that may occur due to a much faster period to the disconnection stage. These are explained in the following sections. Tables are included to demonstrate the impacts to both the consumer and the utility.

Section 2.4.9

Our current practice is to retain Residential Deposits for two years and General Service forever. We have a small percentage of General Service deposits. Deposits are returned following a customer request provided the Customer has established a satisfactory payment record.

The General Service Class poses a potential extreme risk to North Bay Hydro Distribution Limited. On average the larger, the customer the smaller portion the distribution revenue is of the total bill. Table 2 shows the percent of distribution revenue collected from our largest GS > 50 kW customer at only 1.1%. The revenue lost in the example as per Table 2 represents 2.4% of our distribution revenue. All remaining customers will need to absorb this loss. After Cost Allocation is in place it is quite likely this loss would have to be replaced by only the customers in the GS > 50 kW class. When no deposit or an insufficient deposit has been collected, a disconnection due to non-payment of account for this or any similar customer is putting an unfair burden on other customers.

Our experience with Corporations primarily of the GS > 50 kW class is that they may be very good paying customers for many years and then very suddenly fall into arrears and are out of business very quickly leaving large debt with a variety of suppliers. Once the Corporation falls into arrears they are extremely difficult to collect from for non-payment of account and almost impossible to collect a deposit at this stage. A disconnection results in no further chance for the Corporation to earn revenue and puts people out of work. Presently North Bay Hydro Distribution Limited attempts to work with troubled Corporations to get them through these problems and tries to avoid disconnection if at all possible.

However, as per Table 2 the impact is substantial if North Bay Hydro needs to disconnect the customer in Table 2 or any other large GS > 50 kW customer with or without a deposit. Of course, the impact is much worse without a deposit. North Bay Hydro currently does not have a deposit from the customer in Table 2 and as a result feels very insecure. Based on the definition of a good paying customer in the following section 2.4.10 North Bay Hydro is not entitled to a deposit. North Bay Hydro's liability is enormous, thus feel strongly we should have a deposit. Currently we collect \$28,495.02 in distribution revenue annually. We collect a total of \$2,466,512.42 per annum for energy and other regulated charges that are strictly pass through charges.

Based on our current collection policy without a deposit we stand to lose \$722,367.82 if this customer suddenly cannot pay its bills. That assumes North Bay Hydro is able to limit its losses and disconnect service as per current policy, which represents 3.3 months of lost revenue. If North Bay Hydro were able to meet the 2.5 months described in section 2.4.16 the loss would be reduced to \$562,193.06. These amounts represent 8.5% and 6.61% of North Bay Hydro's annual distribution revenue. Another way to describe the loss is that distribution rates would need to increase by 8.5% and 6.61% to compensate for the loss. This could be significantly higher to the GS > 50 kW class after Cost Allocation. Prior to unbundling electricity rates, the increase did not seem quite as dramatic as the increase was on total electricity costs. To compare, assuming \$40,000,000 in total electricity costs, the loss of \$722,367.82 would require a rate increase of 1.8% to replace the lost revenue.

If a deposit had been collected as per Section 2.4.13, the losses would be reduced to \$202,574.60 and \$42,399.84 respectively. This example as shown in Table 2 should support the need for North Bay Hydro to obtain and retain deposits for all General Service customers whatever the size -- forever.

We are currently dealing with a case as described above and had a write-off last year under similar circumstances. Currently there are three large customers with disconnect notices issued where no deposits are held by North Bay Hydro with a potential loss of \$63,000. In addition, North Bay Hydro Distribution Limited has 42 services sealed off for non-payment of account following the winter period of no disconnections.

It makes sense to collect deposits from Corporations at every opportunity and maintain them forever. Not following this practice unnecessarily places financial burden on the utility and its remaining consumers.

Reducing the period for Residential Customers from 2 years to 1 year will not as seriously affect the financial burden but will dramatically increase poor customer relations by requesting and returning more deposits.

Section 2.4.10

This section will produce many more disconnect notices than presently issued. North Bay Hydro Distribution Limited allows 29 days after the due date prior to issuing a disconnect notice. The Proposed Amendments require North Bay Hydro Distribution Limited to reduce that period as close as possible to the 7 days minimum as described in the Distribution Rate Handbook. Our current policy to collect deposits is not to allow the account to reach the stage of sending disconnect notices but request deposits after no more than two late payment charges. We feel our approach is more compassionate and customer friendly. However with the increased risk North Bay Hydro Distribution Limited would have no choice but to reduce the time period as close to the minimum seven day period as possible. This will create much additional work effort on the part of collection staff.

The criterion outlined in this section leaves a very large gap throughout the winter months. As no disconnect notices, no cheques are sent, delinquent customers are not on preauthorized payment and no disconnect / collect trip is made because services cannot be disconnected during winter months, there is no trigger to request a deposit. For winter months where disconnections are not allowed, a special notice needs to be devised and recognized in the proposed amendments to ensure utilities can request deposits during the winter months. For example, the wording may be as follows:

“Dear Customer:

You are currently in arrears and would normally be disconnected as of **(insert date)**, but due to legislative requirements no disconnection can take place until on or after April 1st. We expect payment of the money owing immediately. In addition, you must pay a deposit as per ... “

Section 2.4.12

Currently we calculate the amount of security for the residential class based on average load for that location. Table 1 shows the difference in calculation for an average load of 835 kWh per month compared to an all-electric home with electric water heating and no air conditioning. As shown in the table there is a very large difference in the potential loss using the average load as compared to the actual load for that location. The all-electric residential customer should have to pay a deposit related to his or her usage instead of someone else's. The high usage customers with only electric heating avoid any potential deposit required from other suppliers such as gas. That individual is receiving a real benefit. On the other hand paying a deposit based on average usage penalizes a low user. It is often the low user that cannot afford a deposit, especially one that is not warranted on their electrical usage. In addition to paying a higher deposit, the low user will end up subsidizing the increased write-off by high volume users where the deposit only covers a portion of the arrears leaving a large potential write-off such as the \$832.03 shown in Table 1.

If the reference to subclass means or could mean dividing the residential class into different electrical usage groups such as 1) basic electricity means no space heating, water heating or air conditioning, 2) basic electricity plus electric water heating, 3) basic electricity plus gas space and water heating, 4) basic electricity plus gas space and water heating plus electric air conditioning, 5) all electric residence with air conditioning, and 6) all electric home without air conditioning, the use of averages may be an acceptable method of calculating the deposit amount.

Each of the above can use very different amounts of electrical energy. The customer in Table 1 is number 6 above. There could be more or less than the six items listed above. Class average may make sense where no other information is known.

Section 2.4.13

This section should also recognize seasonal loads such as arenas, ballparks, golf courses and ski resorts where the majority of the electrical usage is usually from 3 to 6 months. The average monthly load should be established based on the period of usage, not the full 12 months.

Section 2.4.14

We suggest a statement be added to allow the 4.3 cents to change once the rate freeze concludes. It should be based on market prices; otherwise, there is an additional financial risk. For distributor-consolidated billing, we believe utilities are at risk where the customer has a contract in excess of 4.3 cents.

Section 2.4.16

North Bay Hydro Distribution Limited currently uses a billing cycle factor of 3 for monthly-billed customers. The two tables show the existing billing cycle factors at 3.3. These billing cycle factors can be reduced by reducing the amount of time between the due date and disconnect notice. As shown based on the current rules of the IMO and Distribution Rate Handbook it is only possible to reach the 2.5 for all customers under ideal conditions. This factor should be closer 3. If two days were added to each of the steps after the due date an additional six days would be added resulting in an increase in the factor from 2.6 to 2.8. This increase occurs as a result of the dates falling on non-business days and/or delays caused by available collection staff and customer negotiation. The six-day increase is minimal and would often be closer to twelve days.

Section 2.4.20

North Bay Hydro Distribution Limited requests a deposit within 16 days of the billing date. If unpaid a disconnect notice is issued and the customer has 48 hours to pay or face disconnection. On occasion this time period is extended but never to four months. It is beneficial to have a maximum time period. Four months would be exceptional.

Section 2.4.21

The payment of interest at prime is far more generous than present practice. As customer deposits are required to be held in liquid form, we do not receive the Prime Business rate, and therefore feel it is unfair to expect us to pay our customers in excess of the rate we are receiving. This may be beneficial to standardize for all utilities but does not recognize the unique financial transactions of each utility. We recommend a standard formula but not the interest rate as well as a lesser amount than the prime business rate.

Recommended Additional Clauses

This suggested addition is required to collect any deficiency in the deposit amount.

Where a distributor determines in conducting a review under section 2.4.23 that the consumer has more than one disconnection notice in a relevant 12-month period, the distributor may recalculate the security deposit amount as per section 2.4.17 and collect any deficiency from the consumer.

This suggested addition clarifies that amounts payable by a consumer to a distributor includes any deposit owing.

Where the Consumer does not meet his or her obligation on payment of the deposit as per the distributors Conditions of Service, the electrical service will be disconnected as per the distributors Conditions of Service as if it were a non-payment of account as per section 7.5 of the Retail Settlement Code.

There are many additional administrative costs related to billing software changes, collection staff time and higher write-offs. If the proposed amendments are approved resulting in higher costs, North Bay Hydro needs to increase distribution revenue to offset these costs. The Ontario Energy Board may want to consider something similar to the Z-Factor for these ongoing increased costs.

Please refer to the attached tables and call if you require any further clarification.

Yours truly,

Kim Jenkins
Manager, Corporate Services

cc EDA

Table 1

Month	kWh	Distribution Charges			Other Charges			
		Fixed	Variable	Total	Regulated	Energy	Total	
July	1,079.0	\$14.98	\$8.74	\$23.72	\$26.49	\$48.44	\$98.66	
Aug	2,279.0	\$14.98	\$18.46	\$33.44	\$55.96	\$102.04	\$191.44	
Sep	1,363.0	\$14.98	\$11.04	\$26.02	\$33.47	\$61.13	\$120.61	
Oct	1,271.0	\$14.98	\$10.30	\$25.28	\$31.21	\$57.02	\$113.50	
Nov	1,655.0	\$14.98	\$13.41	\$28.39	\$40.64	\$74.17	\$143.19	
Dec	3,089.0	\$14.98	\$25.02	\$40.00	\$75.85	\$138.22	\$254.07	
Jan	5,160.0	\$14.98	\$41.80	\$56.78	\$126.70	\$230.72	\$414.19	
Feb	6,246.0	\$14.98	\$50.59	\$65.57	\$153.36	\$279.22	\$498.16	
Mar	6,099.0	\$14.98	\$49.40	\$64.38	\$149.76	\$272.66	\$486.79	
Apr	4,731.0	\$14.98	\$38.32	\$53.30	\$116.17	\$211.56	\$381.02	
May	3,539.0	\$14.98	\$28.67	\$43.65	\$86.90	\$158.32	\$288.86	
June	2,279.0	\$14.98	\$18.46	\$33.44	\$55.96	\$102.04	\$191.44	
Loss Factor	1.0387							
Totals	38,790.0	\$179.76	\$314.20	\$493.96	\$952.45	\$1,735.52	\$3,181.93	
Monthly Average	3,232.5			\$41.16			\$265.16	
Class Average	835.0	\$14.98	\$6.76	\$21.74	\$20.50	\$37.54	\$79.79	
Average Customer								
Existing								
20-Feb	21-Mar	8-Apr	24-Apr	23-May	30-May	\$199.48	\$263.31	\$63.83
Modified								
20-Feb	21-Mar	8-Apr	24-Apr	1-May	8-May	\$199.48	\$204.80	\$5.32
2.6								
High Usage Customer								
Existing								
20-Feb	21-Mar	8-Apr	24-Apr	23-May	30-May	\$199.48	\$1,214.11	\$1,014.63
Modified								
20-Feb	21-Mar	8-Apr	24-Apr	1-May	8-May	\$199.48	\$1,031.50	\$832.03
2.6								

Notes:

See Associated Rules Below for modified dates.

The maximum deposit is based on section 2.4.12. Based on existing policy the deposit would be 3X \$498.16, the highest month or \$1,494.48, not the monthly average of \$199.48.

All periods of time are minimum except the period between reading and billing date, which is 18 days.

Table 2

Month	kVa	kWh	Distribution Charges			Total	Other Charges		Total
			Fixed	Variable	Allowance		Regulated	Energy	
May	5,979.3	2,743,464.0	\$2,459.56	\$3,095.03	-\$3,192.95	\$2,361.64	\$58,997.89	\$79,890.35	\$141,249.88
June	6,052.8	2,702,276.0	\$2,459.56	\$3,133.09	-\$3,232.21	\$2,360.44	\$58,726.49	\$96,885.23	\$157,972.16
July	5,968.0	2,750,920.0	\$2,459.56	\$3,089.17	-\$3,186.90	\$2,361.83	\$59,054.51	\$163,755.14	\$225,171.48
Aug	4,936.0	2,650,048.0	\$2,459.56	\$2,554.99	-\$2,635.82	\$2,378.73	\$53,829.93	\$163,755.14	\$219,963.80
Sep	4,920.0	2,618,444.0	\$2,459.56	\$2,546.71	-\$2,627.28	\$2,378.99	\$53,349.23	\$163,755.14	\$219,483.36
Oct	5,284.0	2,838,752.0	\$2,459.56	\$2,735.13	-\$2,821.66	\$2,373.03	\$57,649.94	\$163,755.14	\$223,778.11
Nov	4,772.0	2,571,348.0	\$2,459.56	\$2,470.10	-\$2,548.25	\$2,381.41	\$52,165.80	\$163,755.14	\$218,302.35
Dec	4,804.0	2,196,264.0	\$2,459.56	\$2,486.67	-\$2,565.34	\$2,380.89	\$47,295.52	\$163,755.14	\$213,431.55
Jan	5,252.0	2,732,760.0	\$2,459.56	\$2,718.56	-\$2,804.57	\$2,373.55	\$56,119.28	\$163,755.14	\$222,247.97
Feb	4,988.0	2,512,436.0	\$2,459.56	\$2,581.91	-\$2,663.59	\$2,377.88	\$52,194.57	\$163,755.14	\$218,327.58
Mar	4,740.0	2,600,632.0	\$2,459.56	\$2,453.54	-\$2,531.16	\$2,381.94	\$52,435.05	\$163,755.14	\$218,572.13
Apr	4,572.0	2,492,724.0	\$2,459.56	\$2,366.58	-\$2,441.45	\$2,384.69	\$50,367.25	\$163,755.14	\$216,507.08
Totals			\$29,514.72	\$32,231.47	-\$33,251.17	\$28,495.02	\$652,185.44	\$1,814,326.98	\$2,495,007.44
Monthly Average						\$2,374.58		\$2,466,512.42	\$207,917.29
Daily Losses						2.00%			\$569.64
Percent of Distribution Revenue			1.14%						

Period	Billing	Due	Disconnect Notice	Disconnect	Maximum Deposit	Unpaid Amount	Revenue Lost	% of Dist Revenue	
Existing									
1-Jul	31-Jul	16-Aug	2-Sep	1-Oct	8-Oct	\$519,793.22	\$722,367.82	\$202,574.60	2.38%
Modified							3.3		
1-Jul	31-Jul	16-Aug	2-Sep	9-Sep	16-Sep	\$519,793.22	\$562,193.06	\$42,399.84	0.50%
							2.5		

Minimum Date Requirement for Various Actions Related to Billing

Billing Date for high usage customers to comply with IMO rules is 16 to 19 days after meter reading date.

Distribution Rate Handbook Section 9.3.2

Due Date is a minimum of 16 calendar days from the date of mailing of hand delivery of the bills. Due to non-business days it may become as long as 19 days.

Distribution Rate Handbook Section 9.3.5

Disconnect notice issued in writing not less than 7 days after the due date. It must either be hand delivered or sent by registered mail. Both tenant and owner must receive the notice.

The electricity service will not be disconnected by reason of non-payment of bills until 7 days after a disconnection notice has been given to the customer.