Richmond Hill Hydro Inc.
1150 Elgin Mills Road East, P.O. Box 418
Richmond Hill, Ontario L4C 4Y6
Phone: 905-884-4466
Fax: 905-737-2548
www.rhhydro.com

July 9, 2003

Ontario Energy Board
PO Box 2319
2300 Yonge Street, 26th Floor
Toronto, Ontario
M4P 1E4

Attention: **Paul B. Pudge**
Board Secretary

Dear Mr. Pudge:

Re: Consumer Security Deposit Policies-RP-2002-0146
Richmond Hill Hydro Inc., ED-1999-0167

Please accept this letter outlining Richmond Hill Hydro Inc's (RHHI) concerns and comments with regards to the amendments to the Retail Settlement Code and Distribution System Code. Our responses #1 through #7 correspond to the questions posed in the OEB memo dated June 10, 2003.

1. RHHI comments to the proposed amendments are as follows:

   a) Section 2.4.1: Security deposit policies should be non-discriminatory. Therefore, codifying the potential to waive or adjust a policy should not be a general practice. It potentially creates double standards.

   b) Section 2.4.9: The proposed good payment history time frame for each class of consumers is not appropriate for all LDCs. RHHI's customer profile is primarily residential with approximately 60% of the Distribution Revenues being generated by the Residential Class. Consequently, the Residential Class risk exposure to potential payment default is material and shortening our current deposit policy to a maximum of one year will put our company at greater financial risk.

      Currently our deposit policy for residential consumers requires a consumer to pay a security deposit, which is returned upon their request if they have achieved a good payment history ("GPH") over a *six-year period*. At RHHI a consumer achieves a GPH if over the six-year period, they incur no more than: one late payment charge per year, no collection letters, no returned cheques and no disconnection of service. The definition of GPH as proposed in this draft document is far too weak.

LDC's with bi-monthly billing would only have six billing periods to determine if the consumer is credit worthy. RHHI's current policy ensures that the LDC has substantial information available to mitigate risk exposure with more than six billing cycles to analyze. Weather conditions and various consumer specific factors may not be captured in the proposed policy amendments for GPH.

General Service consumers pose a different problem and although the proposed time frame is longer than with residential customers to obtain a good history on the consumer's consumption patterns, the length of time a consumer is in business does not mitigate the risk exposure of the company's solvency. Consider many recent failures such as: Eaton's, Country Style Donuts, and White Rose Nurseries. *Not one of these corporations had been around for less than 7 years.* Therefore the proposed policy would have been completely ineffective in mitigating LDC risk/exposure.

Furthermore, as a result of the financial magnitude of invoices issued to the majority of General Service customers, one insolvency could result in a substantial write-off. The size of the write-off must be considered in proportionate size to the LDC. To continue with the Eaton's example, the impact of a store closing (assume $300,000) may not be substantial for a large LDC, like Toronto Hydro. However a similar store going under in a smaller town could have a devastating effect on the proportionately smaller LDC.

RHHI currently retains the security deposits for General Service consumers indefinitely.

RHHI proposes that the LDC's should be entitled to determine the magnitude of their risk exposure based on the relative composition of their customer base. Therefore, it would be prudent to allow for LDC's to determine the criteria and timelines that would constitute a good payment history. In any event this is certainly much longer than the 1, 5 and 7 year guidelines proposed by the OEB.

c) 2.4.11: RHHI proposes that sub-section (a) and (b) should both be at the customer's expense and the credit checks should be done by a credit bureau. Furthermore the consumer must be the party responsible for obtaining the payment history from another utility. A poor credit rating should also take precedence over a good letter of reference from another utility.

d) 2.4.12: Clarification on this section is required. Does this section pertain to the initial deposit or can the request for the deposit amount be modified if a customer defaults. Are the sub-classes OEB approved classes or are they at the discretion of the LDC? If they were Board approved classes the average load would not mitigate a consumers risk exposure for non-payment as the classes are to broad. Consequently, in this case we would propose that a site-specific load average would be more appropriate.

e) 2.4.13: Clarification on this section is required. The LDC should be allowed to make the necessary assessments to determine average monthly load. This would be done using both past history and future potential consumption

f) 2.4.14: Reference should be made to the current commodity price in effect rather than fixing the amount at 4.3 cents per kwh. This will allow for future commodity price fluctuations without the necessity of revising the OEB and potentially the LDC's policy

g) 2.4.15: We are in agreement with this section.

h) 2.4.16: This section is consistent with prudential requirements in the Retail Settlement Code. We are in agreement with this section.

i) 2.4.17: We are in agreement with this section.

j) 2.4.18: We are in agreement with this section.

k) 2.4.19: We are in agreement with this section.

l) 2.4.20: Clarification of the four-month time frame is required. Are the installment payment amounts at the discretion of the LDC or are they considered to be four equal payments? Are there exceptions for consumers that have been disconnected or do we apply the installment period to all customers whether new or delinquent? RHHI requests a proposed amendment to this section stating that the LDC has the right to disconnect a consumer for non-payment of security deposit amounts.

m) 2.4.21: RHHI agrees that the intent of this section is appropriate, however the specified interest rate is not congruent with the amount an LDC earns on their investments. Security deposits are invested in short-term securities that currently yield less than 2% per annum. Requiring an LDC to pay out prime to the customers (currently at 4%) would yield negative cash flow of 2%. In effect, RHHI would need to pay the consumer more interest for their security deposit than they could earn retaining them for the specified time frame. We suggest an interest rate on deposits of prime minus three. In a simple deposit account, no consumer is capable of earning the prime rate on their deposits. Why should deposits at an LDC provide a greater yield?

   Furthermore, as a result of the proposed amendments contained in the OEB document, the administration of these deposits will be substantially increased. It would be prudent to allow the cost of such a program to be self-funding rather than a cash drain.

n) 2.4.22: To mitigate any liability the LDC may encounter if the deposits are returned to incorrect individuals due to circumstances outside of the Company's control or knowledge RHHI proposes that the requests for security deposit refund must be in writing. This would ensure that the request is made by an authorized party. To mitigate escalating costs of administration, the LDC should be entitled to apply the security deposit refund against any accounts that are current as opposed to cheque payment.

o) 2.4.23: This section is appropriate. However clarification should be given as to how frequently a customer is allowed to ask for a refund of the deposit.

p) 2.4.24: This section is appropriate.

q) 2.4.25: This section is appropriate.

r) 2.4.26: This section is appropriate.

2. RHHI is concerned with a three-month implementation period. There are various issues internally and externally that need to be addressed. RHHI is proposing an implementation period of a minimum of six months. A communication campaign to inform consumers needs to be undertaken. The three-month implementation period may not capture all the deposits refunds for all the customer classes due to bi-monthly billing.

   If the document were to be adopted in its current format, RHHI estimates it would need to refund to customers almost $1,900,000. The magnitude of the refunds is due to the proposed GPH definition in comparison to our current definition. This will significantly impair our working capital. In addition, RHHI will be faced with IT changes to our current billing system to help administer the new deposit policy which will also require more than a three month period to implement.

3. The proposed maximum-security calculation is adequate however, the length of time the LDC is able to retain the deposit will infringe on RHHI's risk exposure to a consumers non-payment. RHHI proposes that the maximum deposit calculation remain standard for all LDC however the good payment history time line should be left to the LDC's discretion especially for LDC's whose policies have been in place for many years.

4. An annual review and update of the security deposit policy will have administrative implications for the LDC. Although the process can be automated a manual review of each account would still be required. Reprogramming of the IT system would be a significant expense.

5. GPH references should be at the consumer's expense. It may be beneficial to limit the GPH to only a credit bureau if the GPH time frame is one year. Completing reference letters for other utilities could take significant time. By relying solely on credit bureaus, administrative burden on the LDC's would be reduced.

6. RHHI agrees a far more specific definition of an acceptable credit check is required. In the alternative, the definition of an acceptable credit check should be at the discretion of the LDC.

7. RHHI agrees that a customer specific average is appropriate. If averages are used, sub-classes would need to be more open ended and at the LDC's discretion.

In conclusion, in an industry where deregulation is the intention, we find the proposed changes to be regressive on our path to operating as a viable, commercially reasonable enterprise. Implementation of the changes in their current form, would be a giant step backwards for RHHI and many other LDC's. The changes would be costly to implement, result in decreased working capital for the company, reduce net income, and substantially increase our exposure to credit risk. If implemented the changes will result in increased costs to our good customers (in the form of bad debt write-offs and implementation costs) rather than allowing us to target those customers that create the credit risk problems.

If you have any questions regarding this document contact the undersigned (905-737-2500, e-mail: parmenterc@rhhydro.com) or Ms. Dianne Petrucci of our office (905-737-2523, e-mail: petruccid@rhhydro.com).

Yours truly,

Colin S. Parmenter
President and CEO

DP:MP/

cc Michael Psotka, Vice President, Finance & Administration
Dianne Petrucci, Manager of Regulatory Affairs
Debbie Smyth, Billing and Collection Supervisor
Daloris Grohman, Corporate Communications Officer
Board of Directors