

Toronto Hydro-Electric System Limited
Comments Regarding Proposed Amendments to the
Distribution System and Retail Settlement Codes:
Consumer Security Deposit Policies: RP-2002-0146

Introduction

The Board has invited stakeholder comments with respect to the amendments that it proposes to make to the Distribution System and Retail Settlement Codes. In addition to any other comments, the Board specifically sought responses to seven questions posed in its letter of notification dated June 10, 2003.

This document provides comments from Toronto Hydro-Electric System Limited (TH Electric System), beginning with general concerns and followed by responses to the seven questions as well as specific comments on further issues.

General Remarks

The level of detail and prescription contained in the proposed amendments concerns TH Electric System. While TH Electric System acknowledges the desirability of fair and consistent treatment for customers across the province, there is also the danger that encroachment into the area of routine utility

management will soon result in burdensome regulation without corresponding, substantial customer benefits. Almost by definition, regulation must be uniform across the entities being regulated; as a result, there is a tendency toward a standard approach which doesn't recognize and make allowance for the differing characteristics and operating environments faced by various utilities across the province. TH Electric System urges the Board to exercise forbearance and to focus its attention on the quality of utility performance rather than the details of utility management.

Improved consistency in utility practice can be achieved at the level of policy guidelines without the need to prescribe details of utility operations. For example, it could be reasonable for the Board to establish what prices are to be used to calculate security deposits; however, TH Electric System argues that it is unreasonable to prescribe what measures of customer creditworthiness should be used by utilities.

TH Electric System is also very concerned that some of the detailed proposed requirements may have high costs of implementation and administration, and/or other undue financial consequences generally. Specifically, some of the proposals would require significant and costly changes to billing systems and labour resources. In addition, the proposal concerning the interest to be paid on security deposits is not financially neutral and would cause a direct cash outflow from utilities by requiring them to pay higher interest on deposits than can be earned on them by the utilities.

In the current distribution rate freeze environment, it is unreasonable and inconsistent with the goal of cost minimization for the Board to impose additional operating costs on utilities that cannot be recovered under current rates. The Board should also be aware that any changes to billing systems must await the completion of other numerous and substantial modifications that have been required to accommodate recent unforeseen changes to billing and settlement system requirements.

Responses to OEB Questions

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

Yes. These are noted individually below.

2. Is 3 months an appropriate period of time for LDCs 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.

No. Three months is not a sufficient period of time to implement some of the proposals as they are currently stated. Specifically, changes to the billing system required to

- i) calculate monthly interest on security deposits;

- ii) credit interest earned on an annual basis; and
- iii) determine eligibility for return of security deposits under several different conditions

will be costly to implement and must be queued for development and implementation.

In the absence of any other system modification requirements (i.e., upon completion of modifications queued or in progress), TH Electric System estimates a period of approximately six months to complete design, testing, and implementation, depending on the complexity and clarity of the eventual requirements.

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?

As they are stated, the proposed requirements do not appear to force utilities to demand higher security deposits than those that currently apply.

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.

Yes, there would be significant implications for TH Electric System.

Programming of the review, update, and potential refund of security deposits would be a complicated, costly, and time-consuming process. In addition, the ongoing performance of the review process would create a considerable overhead computational burden as well as extra administrative costs.

If the proposed amendments apply retroactively, another significant transition impact will be the need to review all existing accounts to determine good payment history (GPH) and security deposit status, and to refund any 'excess' portion of existing security deposits relative to the proposed guidelines.

However, in practical terms, utilities would face a consumer backlash if existing deposits, deficient relative to the new guidelines, were to be increased and billed to customers. Thus retroactive application of the amendments would in reality be asymmetrical. Therefore, TH Electric System opposes retroactive application of provisions determining the amounts of security deposits. As customers with historical security deposits attain GPH, these amounts will be refunded and disappear from the system.

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

Yes. While TH Electric System currently provides letters of reference to other parties willing to accept them, it does not itself accept letters of reference from other utilities. This is because there is a high degree of turnover (move-ins,

move-outs) in TH Electric System's territory, and the administrative and storage burden involved in accepting utility letters of reference cannot be justified. Generally, TH Electric System will waive or reduce security deposit requirements for residential customers if a customer has a recent acceptable payment history with TH Electric System, or if the customer subscribes to pre-authorized payments, or if a credit check confirms an acceptable credit rating.

This proposal illustrates the drawbacks of the one-size-fits-all approach at the level of day to day utility management. Circumstances for some individual utilities may permit them to accept utility letters of reference without undue burden; in other cases, the practice does create an undue burden. Other means of establishing creditworthiness make utility letters of reference unnecessary. Therefore, there should not be a uniform code requirement governing this aspect of utility operations.

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

No. Commercial and credit scoring practices evolve over time, sometimes quickly, and specific code requirements could not be expected to keep pace. For example, these proposed revisions make reference to payments by cash or cheque, but not to Internet transfers or payments, which have become increasingly popular among customers.

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

TH Electric System favours using the customer-specific average consumption methodology.

Other Comments

Ref: June 10 Letter ('Letter'), paragraph 11:

TH Electric System supports the consolidation of security deposit related requirements within one Code.

Ref: Letter, paragraph 18:

The issue of 'relative consistency' with gas utilities touches many areas, including the evenhandedness of regulation. The documentation provided does not indicate whether gas utilities are subject to similar requirements.

For utilities that choose to accept letters of reference from gas utilities, it is unclear whether the gas utilities will be determining GPH on the same basis as electric utilities.

Ref: Letter, paragraph 21:

This paragraph appears to be in conflict with proposed sections 2.4.23 and 2.4.24 with respect to refunding of deposits. TH Electric System would

oppose a requirement to review customer account status for GPH more frequently than once per year, not because TH Electric System wishes to retain the funds (which are recorded as liabilities), but because of the considerable expense and administrative burden involved in continuous monitoring of customer accounts for their status in this regard.

TH Electric System regards the provisions discussed below (i.e., those set out at paragraphs 5, 22, 23, 34, 37, and 41) as being too prescriptive. Thus TH Electric System's concerns would be better addressed by the elimination of these provisions. However, if the Board determines that they will be retained, the following revisions should be made:

Ref: Proposed Amendments ('Amendments'), paragraph 5:

The definition of 'disconnect/collect trip' should include reference to installation of load limiters, for example by stating "...and to shut off or limit distribution of electricity..."

Ref: Amendments, paragraph 22:

Section 2.4.10 should be clarified to ensure that if *any* of the listed events occur, GPH is not achieved.

2.4.10 For the purposes of section 2.4.9, a consumer is deemed to have a good payment history ~~if, unless~~, 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 or a~~ cheque given to the distributor by the consumer has been returned for insufficient funds, ~~no or a~~ pre-authorized payment to the distributor has been returned, ~~and no or a~~ disconnect / collect trip has occurred. If any of the

preceding [events](#) occurs due to an error by the distributor, the consumer's good payment history shall not be affected.

Ref: Amendments, paragraph 23:

Section 2.4.11 should be revised to eliminate subsection (a).

2.4.11 Despite section 2.4.9, a distributor shall not require a security deposit where a consumer provides ~~;~~ [a satisfactory credit check made at the consumer's expense.](#)

~~(a) a letter from another electricity distributor or gas distributor in Ontario confirming a good payment history with that distributor for the relevant time period set out in section 2.4.9; or~~

~~(b) a satisfactory credit check made at the consumer's expense.~~

Ref: Amendments, paragraph 34:

Section 2.4.17 should be revised to make reference to a single event of escalated collection activity such as a collection trip, the installation of load limiters, or disconnection.

2.4.17 Where a consumer has a payment history which discloses more than one disconnection notice, [or one instance of escalated collection activity](#), in a relevant 12 month period, the distributor may use that consumer's highest actual or forecast monthly load for the most recent 12 consecutive months within the past two years for the purposes of making the calculation of the maximum amount of security deposit under section 2.4.12 or 2.4.13.

Ref: Amendments, paragraphs 37 and 41:

Sections 2.4.20 and 2.4.24 should be revised, or a new section added, to address the application of payments first to the required security deposit amount (or installment thereof), and secondly to remaining billed amounts. In addition,

the option to pay by installments should not be automatically granted to customers with a poor credit/payment history, and the minimum installment should be at least 1/nth of the total to be paid over n months.

Ref: Amendments, paragraph 38:

TH Electric System objects to the concept of crediting interest to customers on security deposits at interest rates higher than those that TH Electric System can itself obtain on corresponding deposits. From this perspective, the unadjusted Prime Business Rate is clearly inappropriate given that it is systematically and substantially higher than deposit interest rates available to utilities.

At the same time, TH Electric System does not seek to derive net interest income from the security deposits. Balancing the interests of fairness and simplicity, TH Electric System suggests that simple interest be credited at a rate equal to the greater of 1% and Prime Rate minus 4.0%.