



July 10, 2003

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

Re: Consumer Security Deposit Policies – RP-2002-0146

Dear Mr. Pudge:

In response to your request of June 10, 2003, Hydro Vaughan Distribution Inc. (HVDI) is pleased to provide the following comments with regards to the subject proposals.

In general, we are supportive of the concepts of a transparent and consistent application of risk assessment policies. We further support the consolidation of all consumer security deposit requirements into a single code. However, in reviewing specific areas of the proposal, we have identified several issues as follows:

Concerns

1. In light of the provisions of the new security deposit policies, specific clarification is required from the OEB as to liability of Hydro Vaughan if following these policies places HVDI at increased risk for uncollectible commodity costs from a failed business. The OEB Secretary has stated in part "As the Board indicated in the letter of December 6, 2001, LDCs are not intended to be held generally accountable, or at risk, for uncollected commodity costs from consumers."

Currently our top ten customers account for 17% of our total revenue, and all qualify for a security deposit exemption under the proposed Good Payment History exemption. In the event of a large-scale business failure, what form and degree of due diligence would HVDI be required to support in order to be held harmless from such a loss ? Through what mechanism and over what period of time would such a loss be recoverable e.g. province-wide fund ?

2. It is anticipated that the implementation of these proposals would result in the refund of approximately 80% (\$ 7.6M) of the existing customer deposits over time. This will directly impact HVDI's prudential obligations, as these deposits will no longer be available to offset IMO Prudential requirements.
3. The new deposit policy will increase associated interest expense as the earnings rate is being raised from the current prime savings account rate to the "prime business rate". It will be difficult for LDC's to earn this rate of return.
4. Finally, the proposed amendments eliminate an incentive for residential customers to enroll in pre-authorized payment plans, in order to reduce their security deposit requirement. A reduction in pre-authorized payment plan enrollments will in turn result in increased payment processing costs.

Specific Consultation Issues

- (Ref. Section 2.4.23) An annual review of the adequacy and status of all customer security deposits would have serious workload implications for HVDI. We estimate that the associated workload for an annual review of the existing accounts, for which we hold deposits (12,200 accounts), would approximate 1 person-year of work. As an alternative, we propose an ongoing review of HVDI risk exposure during normal collection or follow up activity as our preferred option. Any adjustment or modification to security requirements would be carried out at that time.
- (Ref. Section N.A.) The proposed amendments are explained in sufficient detail and do not require additional clarification.
- (Ref. Section 2.4.6.1, 2.4.6.2, 2.4.9 & 2.4.27) Three months does provide adequate lead-time to implement the proposed deposit policy changes and to communicate these changes to customers.
- (Ref. Section 2.4.12, 2.4.13 & 2.4.15) The differentiation of maximum deposit policy requirements is understood.
- (Ref. Section 2.4.11) Providing the consumer with the option of providing a Good Payment History reference from another Ontario Utility will require both additional administrative effort and expense to complete the assessment due to the introduction of more participants in the exercise.
- (Ref. Section 2.4.11) The code definition of “acceptable credit risk” is adequate.
- (Ref. Section 2.4.9 & 2.4.13) The “customer-specific” security deposit calculation basis for non-residential accounts < 50 kW is the preferred option, as compared to using class averages, because of the variability in consumption of this customer group.

If you would like to further discuss these issues please contact Mr. John Glicksman, Vice-President Finance and Chief Financial Officer (905-832-8371 ext. 6411), or myself.

Sincerely,

Dennis Nolan
Vice-President Corporate Services
& Secretary of the Board
Hydro Vaughan Distribution Inc.

c.c. Brian Bentz, President & CEO
John Glicksman, VP Finance and CFO