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July 8, 2003

BY COURIER

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

D ar Mr. Pudge:

Re: Consumer Security Deposit Policies
Board File No. RP-2002-0146

We are pleased to provide the following comments on the consumer security deposit policies proposed under the Board's Notice of Proceeding dated June 10th, 2003. As requested, we have enclosed three paper copies and one electronic copy of this submission.

We have structured our comments to relate to individual proposed sections of the Distribution System Code. In doing so, we have attempted to address the seven specific questions/issues stated in the Board Secretary's cover letter as issued with the Notice of Proceeding.

Coming Into Force – Sections 2.4.6.1, 2.4.6.2, 2.4.9 to 2.4.27

Veridian submits that three months is insufficient time for distributors to bring security deposit policies into compliance with the proposed new guidelines. The following table identifies the key steps required as part of an implementation plan, and shows that between five and nine months is a more realistic implementation timetable:

Activity	Time Required (months)	
	Minimum	Maximum
Internal policy development	1	1
Corporate Board approval	1	3
Software modification and setup	1	3
Customer notification (one billing cycle)	2	3
Total Time Required:	**5 months**	9 months

We suggest that the Board stipulate a six-month compliance window, with a provision for individual distributors to apply for a three-month extension to accommodate specific circumstances.

Sections 2.4.9 and 2.4.10

We are very concerned with the proposal that distributors be obligated to refund deposits to non-residential customers in a >50 kW demand class after seven years of good payment history.

The use of a lagging indicator such as payment history on its own is entirely inappropriate for business customers. We can cite many examples of customers that maintained an excellent payment record right up to the time of corporate bankruptcy. Electricity is a basic need for any business, so it is not uncommon for customers in financial distress to continue to settle their electricity invoices on time, while protracting payments to other suppliers. Therefore, it is important that distributors retain the ability to consider both leading and lagging indicators of a customer's credit worthiness in assessing the need for a security deposit. Leading indicators might include the monitoring of corporate bond or credit ratings where available, or periodic reviews of credit reports from agencies such as Dunn and Bradstreet.

In the Board's discussion paper on security deposits, a stated goal was to achieve symmetry between the province's natural gas and electricity LDCs. We understand that this proposal provides for a degree of symmetry, however, we are not aware of any Board codes pertaining to natural gas LDCs that restrict the collection of security deposits to the extent proposed for electricity distributors. Regardless, Veridian submits that electricity distributors should not be bound by the credit practices of gas distributors. The province's gas distributors benefit from much larger scale operations, and face a lesser risk associated with payment default by individual business customers.

To put this into perspective, Veridian Connections serves approximately 83,000 residential customers and only about 1,100 business customers larger than 50 kW's. In 2002, annual revenues from the >50 kW business class eclipsed the entire residential class by about $10.3 million ($62.8 vs. $52.5 million). Clearly, credit risk is much less diversified in the >50 kW business class, and it therefore deserves a more rigorous credit policy. We no not believe that the proposals offer this rigour.

As another example of the credit risk faced by distributors within the business class of customers, Veridian Connections has a small number of large customers with monthly billings that average in the range of $300,000 to $600,000. In the event of a payment default by one of these customers, Veridian Connections' financial exposure would equal three months of electricity charges (see comments under section 2.4.16 for details). Therefore, payment default by a single large customer could increase the company's bad debt charges by $900,000 to $1,800,000. Again, to put this into perspective, Veridian Connections' entire net income for fiscal 2002 was $2.7 million.

We submit that for non-residential customers in the >50 kW's demand class, distributors should have the ability to hold a security deposit for the duration of the business relationship with the customer (i.e. delete requirement for a refund with good payment history after seven years). Alternatively, distributors must be permitted to develop and implement their own security deposit guidelines for this class of customer, using both leading and lagging indicators of a customer's credit worthiness.

Section 2.4.11 (a)

For clarity, this section should be amended to stipulate that the credit reference letter from another electricity or gas distributor must relate to twelve months of good payment history *during the twenty-four month period immediately prior to the request.* Without this restriction, distributors may be obligated to accept out-of-date credit references.

We also suggest that consideration be given to establishing a standard format for a credit reference letter, and that a miscellaneous charge be set for providing this service to past customers. This latter suggestion is intended to ensure that the user-pay principle of rate design is upheld. It is not appropriate that current customers of a distributor be required to pay the costs of credit reference letters generated for past customers.

Section 2.4.11 (b)

For clarity, this section should be expanded to stipulate that the 'satisfactory credit check' is to be interpreted as a *credit check satisfactory to the distributor, from a credit agency approved by the distributor.* This clarification is needed to avoid future disputes over the intent of this section.

Section 2.4.13

Veridian supports the proposal that security deposits for non-residential customers be based on customer specific consumption, as opposed to class or sub-class average consumption. Class or sub-class averages are not a reliable predictor of consumption for business customers.

Section 2.4.16

Veridian submits that the proposed billing cycle factors do not reflect the company's normal collections process, and should be increased to 3 for accounts billed monthly, 2 for accounts bill bi-monthly, and 1.75 for accounts billed quarterly.

The revised billing cycle factors are based on the following timelines for billing and collections activity:

Activity	Days Elapsed	Cumulative Days of Outstanding Energy Charges
Meter reading	30	30
Bill issued	15	45
Due date	16	61
First reminder notice	10	71
Second reminder notice	10	81
Disconnect notice	7	88

This example is for a monthly-billed customer. It shows that the first opportunity for the disconnection of the customers' service occurs at 58 days following a meter reading. Therefore, to adequately secure a distributor for its potential credit exposure, a security deposit must be based on the length of the billing cycle plus two months. The revised billing cycle factors proposed above achieve this.

Section 2.4.20

For clarity, this section should be expanded to confirm that a distributor is authorized to disconnect a customer's service in the event that the customer does not meet its security deposit installment payments.

Section 2.4.21

The proposed requirement for the accrual of interest at the Bank of Canada's Prime Business Rate is inappropriate. The level of interest paid on security deposits should reflect the interest earned by Veridian on its cash reserves. Typically, interest on these holdings is accrued at the Prime Business Rate less 1.75%. We submit that this should be the basis for interest accruals on customer deposits as well.

For administrative simplicity, we also submit that the accrual of interest on customer deposits should be quarterly, and based on the Bank of Canada's Prime Business Rate (less 1.75%) as in effect at the end of the quarter.

Sections 2.4.23 and 2.4.24

These sections stipulate that the distributor must conduct an annual review of security deposits and initiate the return or reduction of deposits where warranted by good payment history. This is inconsistent with paragraph 21 of the Board Secretary's covering letter as issued with the Notice of Proceeding. The last sentence in this paragraph states: "Accordingly, it is proposed that LDCs refund the deposit upon a customer's request".

We agree with the statement in the Board Secretary's letter. Requiring distributors to initiate deposit refunds will require costly software enhancements, as well as new and costly business processes. At Veridian, we currently have a security deposit policy that provides for customer-initiated refunds after a period of good payment history. This process works well and should be maintained.

We submit that these sections should be deleted.

If you require clarification on any of our comments, do not hesitate to contact me by fax at 905-619-0210, by email at garmstrong@veridian.on.ca, or by telephone at 905-427-9870, extension 2202.

Yours truly,

G. Armstrong /cs

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