

November 20, 2003

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

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

This is in response to your letter of November 10, 2003 on Consumer Security Deposit Policies. The Notice of Proceeding requested a response by 4:30 pm November 24, 2003.

This is filed by Bob Mason & Associates located at 12 Vivienne Court, North Bay, Ontario P1A 4J2. I can be reached by telephone at 705-476-4696, by fax at 705-4696 and by email at bob.mason@sympatico.ca.

We had participated in the July 10th response on behalf of a client. We felt the response from the July 10th submissions was positive as many of the suggestions were implemented on behalf of business, consumers and distributors. However many distributors remain at extreme risk if the proposed amendments become part of the Distribution System Code. On reviewing several of the July 10th responses, we find many issues were well documented on the lack of risk mitigation for distributors and the lack of concern about consumer relationships with distributors. Many of these issues were not addressed in the November 10th second proposed amendments.

As suggested we will focus on the large consumers as it is these consumers that cause the most risk to distributors. To address large users over 50 kW requires comments on the following amendments: 2.4.9, 2.4.10, 2.4.11, 2.4.13, 2.4.16 and 2.4.22.

Firstly it is worth noting the impacts to distributors are substantial if their largest consumer defaults on payment. To demonstrate we compare two consumers serviced by two different distributors.

Largest Consumer Serviced by Larger Distributor

The largest consumer with an average of 4,670 kW pays \$2,495,007 per year for electricity. Of that total \$28,495 is collected in distribution charges. The distribution charges represent 1.1% of the total, yet the distributor is at risk for 100% of the bill. Assuming the loss is 3 months revenue, which is minimal for a business prior to disconnection, the distributor stands to lose \$623,752. This loss from one consumer represents 7.3% of all distribution revenue collected from all Customer Classes of the distributor. It would eliminate most if not all the net income.

Larger Consumer Serviced by Smaller Distributor

The largest consumer with an average monthly demand of 334 kW pays \$196,818 per year for electricity. Of that total \$3,004 is collected in distribution charges. The distribution charges represent 1.5% of the total electricity bill, yet the distributor is at risk for 100% of the bill. Assuming the loss is 3 months revenue, which is minimal for a business prior to disconnection, the distributor stands to lose \$49,204. This loss from one consumer represents 9.3% of all distribution revenue collected from all Customer Classes of the distributor. It could change a net income into a sizeable net loss.

Section 2.4.13

We are uncertain why this section is included for non-residential consumers >5,000 kW. From the information we have there are about 140 customers in total that would be in this class. The number of customers and impacts to distributors may be less due to billing option where this revenue reduction may apply. The largest distributors serve the majority of these consumers > 5,000 kW. It is unlikely the impact from the loss of three months revenue from any of these consumers would have as a great an impact on the distributors in terms of percentage of bad debts to total distribution revenue as in the above two examples. However a bad debt for these large customers would be most serious. We expect that as the credit rating changes would be monitored at least annually as per 2.4.22 and the security deposit either adjusted accordingly or a new security deposit requested where one didn't exist previously as the credit rating declines.

Section 2.4.10 and 2.4.16

There were many good July 10th responses on the Billing Cycle Factor being too short. We won't repeat them here but agree that they all need to be increased. For example existing disconnection process for monthly billing often requires in excess of 3 months prior to the "right to disconnect". The "right to disconnect" is important terminology, as it likely won't happen at that time due to the sensitivity of the distributor to such matters, community impact and other negotiations that often occur. The distributor will do a much better job at avoiding disconnection if they are holding 3.5 as opposed to 2.5 months security deposit. Since the risk is so high in terms of the bottom line on the financial statement, the distributor cannot afford to wait longer than 2.5 months if that

becomes policy. The only way to minimize risk is to accelerate the time period to the disconnection notice stage to meet the 2.5 Billing Cycle Factor. This is not very consumer friendly. It is also not consumer friendly if bad debts increase, as there may be a negative impact on the good paying consumers leading to poorer reliability or customer service. If there is decrease in net income or a net loss, service is likely to decrease.

Section 2.4.9, 2.4.11 and 2.4.22

Many distributors recommended the seven-year period be eliminated for non-residential consumers over 50 kW when a good payment history is attained. We strongly agree that any consumer deposit be held for the life of the account. This amendment remains and is now compounded with the amendment in 2.4.11 that states a consumer would not pay a security deposit if the consumer received a satisfactory credit check. This means that even a consumer who has a poor payment record with more than one disconnect notice would receive the security deposit back after the annual review in 2.4.22, if that is what section 2.4.22 means. Conversely, we assume that the credit check would become an annual occurrence at the consumers expense resulting in collecting a deposit if the credit rating isn't satisfactory whether or not the consumer has a good payment history with the distributor. It was pointed out in the July 10th responses that lagging indicators such as good payment history are not necessarily a good indicator to what happens in the future for that business in that location. It may be sad to know a bankruptcy is quite likely based on local knowledge, but the distributor cannot collect a security deposit based on these proposed amendments.

If you require clarification or require other input please free to call, as we didn't have sufficient time to respond, as we would like.

Yours truly,

J. R. (Bob) Mason, P. Eng.
Bob Mason & Associates