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November 21, 2003

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

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

This is in reference to the Board's proposed revisions to the Retail Settlement Code and Distribution System Code with respect to consumer security deposits. Hydro Ottawa provides the following comments to the changes to the proposed amendments.

Hydro Ottawa has always maintained a philosophy that customers that pay their bills on time should not pay for the additional costs incurred for customers that leave bad debts or create additional administrative burdens. Clearly the proposed amendments will result in fewer deposits held by distributors, with the resultant increase in bad debt expenses, and a significant increase in the costs to manage any deposits that are retained. Since Hydro Ottawa is a regulated company seeking a set return on equity based on its expenses, these proposed amendments will mean that the 95% of customers with good payment histories will now have to subsidize the other 5%. This is the reason that Hydro Ottawa's previous submission on this topic pointed out significant areas in which the proposed amendments should be revised. And while these points will not be repeated in this submission, Hydro Ottawa's position remains unchanged. However, there are some additional comments based on the revised proposal as follows.

Section 1.2

While the Board's letter does indicate that disconnect trips and connect trips may not be the same, the proposed Code does still indicate that the distributor must have made the trip with the intention of shutting off or limiting the distribution of electricity. Hydro Ottawa will sometimes make a "collect trip" with only the intention of collecting money from an overdue account, not with the intention of disconnection, even though Hydro Ottawa would have been within its rights to disconnect the service. Therefore under this proposed definition, this would not be considered a "disconnect/collect trip". If the definition remains as proposed, Hydro Ottawa will have to review eliminating this collection practice. Hydro Ottawa maintains the position that a "disconnect/collect trip" is for the purposes of collecting money from an overdue account "or" for disconnecting the service.

Section 1.7

Hydro Ottawa is in the process of implementing a new customer information system (CIS), scheduled for September 2004. With the six-month timeframe proposed by the Board, Hydro Ottawa could be placed in the situation in which it would have to undertake significant changes to its existing CIS for only a few months of use before the new system is on-line. Due to these unique circumstances, Hydro Ottawa will seek an extension until September 2004 on any new security deposit requirements. When Hydro Ottawa files for a formal exemption, it is hoped that this approval can be granted in an expedited manner.

Section 2.4.11

Since good payment history is not a reliable measure of the credit risk for a commercial customer, Hydro Ottawa can accept that appropriate credit checks can be a better method for determining deposit requirements. However, this section should be amended to allow a distributor to seek a deposit from an existing non-residential customer at any time that a credit check is unfavourable, even if the customer has a good payment history with the distributor. This is because it is changing economic circumstances, not past performance, that have a stronger correlation with bad debts for businesses. The customer classes that fall into this category of non-residential < 5000 kW demand represent nearly 2/3 of Hydro Ottawa's total annual revenues. Having credit risks mitigated for these customers is essential in minimizing bad debts.

Section 2.4.21

The proposal implies that Hydro Ottawa can earn the Prime Business Rate less 2% on deposits, therefore there is no cost impact to the distributor. However, since for IMO prudential purposes these deposits must be held as cash or near cash, this is not possible. Therefore, Hydro Ottawa would support the position put forth by Toronto Hydro that the interest rate be Prime Business Rate less 4%, or 1%, whichever is higher. Furthermore, the interest rate on the Bank of Canada website changes regularly. This would add additional complexities to the new programming required in the CIS. It is recommended that the distributor set a rate for each year based on the Bank of Canada rate at that time, rather than continually changing the rate throughout the year.

Section 2.4.24

Hydro Ottawa appreciates the Board's attempt to mitigate the cash flow impacts of the changing policy by delaying the first review until 2005. However, distributors will not likely get any relief from the existing cash flow pressures until 2006. These security deposit changes will only add to an already difficult situation. Therefore, it is recommended that this date be changed to 2006 to coincide with expected re-basing.

Section 2.4.26

It is certainly understood that deposits must be returned in a timely manner to customers once a customer's account is closed. However, the deposit cannot be returned until the final bill is prepared. The final bill cannot be prepared until at least 2 weeks after the close of the account, once the IMO price is available. This only leaves 2 weeks to produce the final bill, determine if the deposit is required to cover any arrears and issue a cheque to the customer. At certain times of the year, Hydro Ottawa can be faced with thousands of account closures every week. During these times, a 1-month duration for repayment of the deposit is too short. It is recommended that this be changed to 2 months.



If you would like further clarification of these preceding comments, please feel free to contact me at 613-738-5499 ext 527 or e-mail lynneanderson@hydroottawa.com

Yours truly,

Lynne Anderson
Manager, Regulatory Affairs