

Meeting Notes - #4
Consumer Security Deposit Working Group
Friday, October 18, 2002
9:00 a.m. - 3:00 p.m.

Roy O'Brien (Canadian Cable Television Assoc.)
Melanie Currie (Canadian Federation of Independent Business)
Julie Girvan (Consumers Association of Canada)
Tony Paul (Electricity Distributors Association)
Rita Ronca (Enersource Hydro Mississauga)
Laurie Elliot (Hydro Ottawa)
Brenda Bracken (Hydro One)
Sandy Martin (Milton Chamber of Commerce)
Graham Postma (Milton Chamber of Commerce)

Mary Jo Corkum (Milton Hydro)
Don Thorne (Milton Hydro)
John Savage (Ministry of Energy [Observer])
Lisa Marsden (Retail Council of Canada)
Frank Fabiano (St. Catharines Hydro)
Pamela Tweedy (Toronto Hydro)
Judy Rosebrugh (Wellington North Power)
Chris Cincar (Ontario Energy Board)
Martin Davies (Ontario Energy Board)

NOTES OF MEETING:

1. Discussion of Minimum Requirements

The listing of minimum requirements for security deposit policy components included in the Discussion Paper (September 2002) were determined to be appropriate. The issues that will arise will be in the details around those minimum requirements. For example, whether to include the types of security to be accepted in a policy is not the issue. It will be which specific types (i.e., beyond cash) should serve as the minimum. The following are the minimum requirements listed in the Discussion Paper:

- C list of all potential *types* of security accepted;
- C detailed description of how the *amount* of security is *calculated*;
- C *limits* on *amount* of security required;
- C if and how security policy differs for *new and existing* customers;
- C planned *frequency, process and timing* for *updating* security policy;
- C description of how *interest* payable to consumers on deposits is determined;
- C *criteria* customer must meet to have security deposit *waived and/or returned* (e.g., for what period of time must a new customer maintain good payment history);
- C conditions of *default*;
- C *specific reason* to each consumer for requiring a security deposit; and
- C provide *copy* of its security policy to the Board and any other person, *if requested*.

In applying its security policy in a *non-discriminatory* manner, each electricity LDC would also take into account:

- C type of security;
- C *credit-worthiness* of the customer; and
- C magnitude of *exposure*.

In terms of “new” customers, it was also agreed to that a customer is not considered “new” if it is a customer within the same LDC service territory including a physical expansion of a facility.

2. Discussion of Principles and Current Potential Inequities

Principles:

- Simplicity / practicality (ease of implementation and understanding)
- Transparency
- Fair / equitable (minimize cross-subsidization between defined customer classes and within classes)
- Uniformity / consistency
- Customer alternatives / flexibility / choice
- Due diligence (utility accountability)
- Customer accountability (responsible for own debts as they alone received benefit)

Current Market Rules:

- Retail Market Participants (RMP) share in Wholesale Market Participants (WMP) defaults, but WMPs do not share in RMP defaults
- Should be parity between WM & RM.
- Those who profit should begin to share in the default risk.

3. Discussion of Potential/Proposed Security Deposit Policy Terms & Conditions (by customer class)

- C The following proposal represents the maximum (most stringent requirements) an LDC can impose on a customer and/or the minimum that an LDC should do in contributing towards demonstrating prudence.

Residential

Option 1: Require deposit from all residential customers unless:

- < good payment history (GPH) with LDC; or
- < provide GPH reference from previous utility (gas, electric); or

- < provide satisfactory credit check (at customers expense); or
 - < acceptable 3rd party guarantee / arrangement.
- Note: GPH = no more than 1 disconnection notice, no NSF or returned PAP, and no disconnect / collect trip.

Option 2: Residential customers given benefit of doubt if:

- < no bad payment history (most recent 12 consecutive months service);
- < no more than 1 disconnection notice;
- < no NSF or returned pre-authorized payment (PAP);
- < no disconnect / collect trip.

Note: Option 1 is like “guilty until proven innocent”, while Option 2 is like “innocent until proven guilty”. Intention is for the Board to decide on one option as opposed to leaving it up to LDC to decide. Under option 1 “new” customers would pay, under option 2 “new” customers would not pay.

Payment options to security deposits:

- C Prepayment
- C Pre-authorized payment
- C More frequent payment

Form of security deposit:

- C Minimum - cash/cheque

Timing:

- C Up-front or installments over 2 - 4 months

Retention:

- C For 1 year of good payment record or closure of account, whichever comes first

Interest:

- C Accrued monthly, applied annually or on closure of account
- C Commencing on receipt

Calculation of Amount:

- C Cover exposure as per RSC
- C Base on 2.5 x *customer class average* for month (most recent 12 months)
- C If customer demonstrates higher risk (e.g., more than 1 disconnection notice), then base on 2.5 x *highest* month (most recent 12 months)
- C Use 6.5 cents/kWh for all
- C Fairness vs. administrative ease

Update/Review:

- C Annually (at a minimum)

Return/Refund:

- C After 1 full year GPH y refund automatically (i.e., no special request by consumer required)

Enforcement:

- C Failure to pay deposit identified as a condition of service or a condition of continuing service should result in normal collection activity-up to and including disconnection of service (no other options to enforce or protect against default).

Recovery of residential default amounts:

- C Subject to LDC applying minimum policy requirements, default amounts remaining to be recovered from all customers within the residential class
- C Removal of current bad debt allowance from distribution rates

General service:

- C All customers required to pay deposit unless:
 - < Good payment history with utility may reduce deposit requirement (differs for over/under 50 kW¹)
 - < Acceptable parental guarantee provided
- < **50 kW** same as residential except:
 - < 5 years of GPH required
 - < Retention period of 5 years. Then refund if GPH, or on account closure, whichever is first

Note: For > **50 kW** customers, the options below are only applicable if and when changes (i.e., Market Rules) are made to remove the default risk of cost pass-throughs (e.g., commodity, transmission, etc.) from LDCs. If no such changes are made, all large customers (> **50 kW**) would be required to provide a deposit indefinitely.

> **50 kW**: *Option 1*

10 years	-	100% reduction
5 years	-	75% reduction
3 years	-	50% reduction
1-3 years	-	0% reduction

> **50 kW**: *Option 2*

- < Mirror IMO scheme in terms of GPH, credit ratings, etc. Unless another

¹ Over and under 50 kW determination based on rate application status.

agency able to provide credit-related watch assistance (on cost recovery basis), few if any LDCs able to implement.

Forms:

- < Same as residential at minimum + Letters of Credit
- < Potentially add other instruments such as surety bonds, etc. (optional). Dependent on prospect of another agency (e.g., IMO) providing some form of credit watch services to the LDCs (on a cost recovery basis).

Interest:

- < same as residential

Update/Review:

- < same as residential (annual review to make adjustments to amounts)

Payment options:

- < same as residential

Calculation of Amount

- < same as residential for general service < 50kW
- < same as residential or base on 2.5 x highest month (most recent 12 months) immediately for general service > 50 kW (i.e., interval metered)
Note: Further discussion required on this matter (i.e., highest month immediately for > 50 kW).

Timing:

- < same as residential

Enforcement:

- < same as residential

Recovery of residential default amounts:

- < same as residential (i.e., recovery in respective customer classes)

4. Next Meeting

Wednesday, October 23, 2002
9:30 a.m. to 2:30 p.m.
OEB offices
26th floor, Main Boardroom

Action Item

- 1) Meeting Notes to be prepared summarizing the meeting.
Action: Chris Cincar (OEB) to prepare draft Meeting Notes.