

**Meeting Notes - #5**  
**Consumer Security Deposit Working Group**  
**Wednesday, October 23, 2002**  
**9:30 a.m. - 3:00 p.m.**

Melanie Currie (Canadian Federation of Independent Business)  
Julie Girvan (Consumers Association of Canada)  
Laurie Elliot (Hydro Ottawa)  
Brenda Bracken (Hydro One)  
Mary Jo Corkum (Milton Hydro)

John Savage (Ministry of Energy [Observer])  
Lisa Marsden (Retail Council of Canada)  
Judy Rosebrugh (Wellington North Power)  
Chris Cincar (Ontario Energy Board)  
Martin Davies (Ontario Energy Board)

NOTES OF MEETING:

**1. Discussion of Meeting Notes #4**

- C The discussion from meeting #4 was revisited for clarification.
- C Minimum requirements refers to the minimum a utility must do in order to demonstrate prudence to Board. It also represents the maximum (most stringent requirements) an LDC can impose on a customer. Assumption is that if utility has applied the proposed policy, then any defaults experienced would be recoverable through some mechanism (rates, Z factor, wholesale residual risk pool, etc.)
- C Board staff expressed concerns about the implications for rate-setting, in a PBR environment, of the cost-of-service approach in some of the options and that these would have to be addressed in the proposal. For example, under PBR, the shareholder is intended to assume greater risk in return for the potential to achieve greater reward, however, some options include automatic recovery of all default amounts (i.e., zero risk to shareholders). Participants voiced opinion that LDCs were not intended to assume the commodity risk and resolving all potential rate setting implications is beyond the mandate of this group.
- C Definition of "new" customer should be revised to indicate that the same customer moving or expanding within the LDC service territory is not considered "new".
- C It was requested that the title for item 3 be changed to "recommended or proposed" versus "specific" policy terms and conditions (by customer class).
- C Item 3, Option 2 discussion around the fact that it is opposite of Option 1, i.e. "innocent until proven guilty" versus "guilty until proven innocent". Also the bullets under option 2 define what a good payment history is.
- C Lengthy discussion on what participants expect from this process, and whether

any resulting policy recommendations should be considered "prescriptive". If they are not prescriptive, the situation will not change with respect to LDCs having different security deposit policies. At the same time, OEB staff cautioned LDCs that even if it is prescriptive, then assuming the terms and conditions agreed to are applied by the LDC, it may go towards demonstrating prudence, but LDCs should not assume that a Board Panel will automatically find the LDC to be prudent. In some cases, there may be unforeseen circumstances that any Board Panel would have to take into account (i.e., to ensure rates are "just and reasonable").

- C Agreement of participants that the working group expects to be making recommendations to the Board on a policy that will be standard across the province.
- C Under bullet "recovery of residential default amounts", not practical to have two separate pools for residential class, therefore should be revised.
- C Discussion around whether there is any likelihood of legislative change to allow tax roll of electricity arrears. A working group member suggested this to be a non-starter because the restructuring of the electricity industry was premised on moving utilities to a commercial basis - and access to the tax roll is not aligned with this commercialization.

## 2. Further discussion of Residential customers

- C Discussion on the amount of residential deposit to be taken - suggestion that *average* monthly amount should be used *rather than* the *highest* month - particularly given the current price volatility. Schedule should set out the amounts, e.g., like Milton Hydro's table (below) .

Example: For Illustrative Purposes Only				
Type	Electric Heat	Electric Heat PAC	Non-Electric Heat	Non-Electric Heat PAC
Home	\$530.00	\$425.00	\$235.00	\$190.00
Apartment	\$285.00	\$230.00	\$175.00	\$140.00

- C Agreement of all participants that the deposit levels should be an LDC-specific fixed flat amount (in schedules) and standard across province (e.g., 2.5 x class average = flat rate for all customers in class). This would increase consistency in terms of customer treatment, be easier for LDCs to implement and be easier for customers to understand. Group recommended use of 6.5 cent/kWh for commodity pricing, i.e. IMO rate that is used for prudential calculation.

- C Once customer has demonstrated poor payment, utility should have flexibility to increase deposit amount to cover the highest exposure. That is, utilities need to have flexibility to move up to the maximum amount of 2.5 times highest monthly consumption of the customer in question, where a proven credit risk.
- C With respect to ACTO's concerns and position (i.e., exemption for low income customers), there was agreement that social policy is beyond the scope of the working group and, if anything was to be done on this front, it was suggested that this would likely require action by the Government (i.e., directive).

### **3. Further discussion of General Service (<50 kW) customers**

- C Under 50 kW General Service (defined as "average monthly demand over a calendar year is 50 kW or less" same as in Dx Rate Handbook and SSS Code).
- C Good payment history for 5 years with the LDC. If deposit required, retention period should be for 5 years of good payment. Refund should be automatic, not require a customer request. This will require CIS system changes for a number of utilities. This is consistent with research of other jurisdictions and the Ontario natural gas industry in the discussion paper.
- C Amount of deposit should be based on 2.5 times "average" monthly exposure of the class and then adjust to 2.5 times "highest" month exposure for the customer at that premise if they demonstrate poor payment.
- C Forms of deposit: at minimum must accept cash/cheque and Letters of Credit. Potentially, could include third party or parental guarantees, surety bonds, external credit ratings, etc.
- C Discussion on 3rd party guarantees - suggestion that, if a standard form could be developed that meets legal requirements and allows LDCs to transfer default amounts to the account of the guaranteeing party and take normal collection action up to and including disconnection, it would be accepted.

### **4. Further discussion of General Service (>50 kW) customers**

- C Greater than 50 kW General Service (defined as "average monthly demand over a calendar year is greater than 50 kW" same as in Dx Rate Handbook and SSS Code).

- C Discussion on "credit watch" services and LDCs need to be able to take security as soon as credit watch indicates default risk has increased, even though the customer may not be exhibiting poor payment. Suggestion that perhaps the IMO, who have a risk management group looking after this, might provide services to LDCs (assuming a cost-based fee paid to such an agency that LDCs could recover in rates).
- C Point was raised that working group discussions have thus far inferred that > 50 kW GS class will default, rather than treating this situation as the exception. Response that this group represents the LDCs largest risk, and therefore the greatest risk to all ratepayers is from this class. For example, one LDC member noted that their large customers represent over 50% of revenues.
- C All > 50 kW GS customers required to pay security deposit unless 10 years good payment history. Once 10 years good payment history met, then utilities would require ability to take security if credit rating or payment history declines. However, any relaxation of security deposit requirements, such as this, is contingent on rule changes to remove the default risk of cost pass-throughs. LDC members noted that, based on the status quo, they cannot see how they can now relax their security requirements after the risk has increased with introduction of a variable commodity price.
- C There was further discussion of pools within a class (secured vs unsecured). It was suggested that this would result in rate implementation problems for LDCs and the OEB (i.e., different rates for customers in same class). It was asked whether there are any other suitable methods of recovery other than a rate that would need to appear on a rate schedule. Some type of lump sum charge or z-factor were discussed as well as IMO model for the residual risk pool.
- C If all are required to provide a security deposit, all of the customers will have contributed, including the customer that does default, since the deposit will first be used to reduce the amount owed before turning to non-defaulting customers for recovery. Since security calculations are based on usage, prospect of cross subsidization is reduced. If no deposit was required from defaulting customer, non-defaulting customers could be required to cover entire default amount (if not LDC). [Note: It was not discussed in this meeting, but a similar discussion took place before around some type of reserve pool].
- C Board staff pointed out that it is not within the Board's jurisdiction to suggest or initiate market rule changes, they are however, the body to which appeals are directed. Legislation allows for any individual person to challenge market rules through a process. One member responded that, based on their experience, the concept of any person appealing Market Rules is only applicable in theory (i.e., resource and time requirements too excessive for any individual person).

- C Discussion around splitting out interval metered customers for separate policy requirements, i.e. to offer more frequent billing/payment to these customers. LDC's could determine the exposure based on load that is related to their interval metered customers (this load is backed-out of the NSLS calculation). It was also suggested that if interval-metered (I-M) customers were split out and treated differently than non-I-M customers, there may be a need for a separate I-M class (for security deposit purposes). If that's the case and only a few customers > 50 kW are not I-M, a consideration could be treat them as < 50 kW (for security deposit purposes), especially if they are close to the 50 kW cut-off. This may make implementation easier for LDCs with fewer different sets of security arrangements to administer.
- C LDCs should be collecting information around bad debt expense by rate class in the open market to see how experience changes from historical. LDCs all expressed agreement that they are reasonably comfortable with managing risk associated with distribution charges, but not for pass-through charges - there must be a mechanism for recovery of these otherwise LDCs will continue to take security from all customers over 50kW.
- C Given the many uncertainties and potential options for this customer class, consensus could not be reached regarding the > 50 kW customers.

## **5. Other Matters (Not Specific to a Customer Class)**

- C When and if OEB allows re-basing of utilities' rates going into 2nd generation PBR - scheduled for 2005, this might be a mechanism for recovery of increased bad debt expenses. OEB staff confirmed that examination of rebasing may take place before 2005. Conversely, a mechanism could be found to recover bad debt related to pass-through costs (commodity, Tx, WMS, etc.) directly with the IMO (i.e., residual risk pool expansion) to address the concerns of potentially significant pass-through costs being recovered through distribution rates.
- C Discussion again about terminology around security deposits - should they be characterized as "pre-payment" instead so that it appears on P&L statement rather than on balance sheet. It was suggested that accounting rules require pre-payments to be balance sheet items rather than P&L - classic example is the magazine subscription. However, "pay-as-you-go" is a true P&L item.
- C The Retail Council of Canada (RCoC) and Canadian Federation of Independent Business (CFIB) are both in the process of conducting member surveys. The surveys include questions regarding security deposits. Preliminary results are expected to be made available to the full working group prior to the first Options Paper sub-committee meeting. The RCoC has 1,800 members and CFIB has 28,000 members. CFIB expects a 20% response rate.

**Action Item**

- 1) Meeting Notes to be prepared summarizing the meeting.  
**Action: Brenda Bracken (Hydro One) volunteered to prepare draft Meeting Notes. Chris Cincar (OEB) to review and add any pertinent information and circulate to all working members that attended this meeting for review, as this was the final meeting of the full working group.**
  
- 6) Options Paper to be completed by mid-November.  
**Action: Chris Cincar (OEB) to contact sub-committee members to set a date for the first meeting**
  
- 3) Retail Council of Canada and CFIB member surveys.  
**Action: Lisa (RCoC) and Melanie (CFIB) to report on preliminary results of surveys to the working group.**