

Meeting Notes - #3
Consumer Security Deposit Working Group
Wednesday, October 9, 2002
11:00 a.m. - 4:30 p.m.

Roy O'Brien (Canadian Cable Television Assoc.)
Melanie Currie (Canadian Federation of Independent Business)
Tony Paul (Electricity Distributors Association)
Laurie Elliot (Hydro Ottawa)
Brenda Bracken (Hydro One)

Robert Clarke (Milton Chamber of Commerce)
Mary Jo Corkum (Milton Hydro)
John Savage (Ministry of Energy [Observer])
Frank Fabiano (St. Catharines Hydro)
Pam Tweedy (Toronto Hydro)
Chris Cincar (Ontario Energy Board)

NOTES OF MEETING

1) Review of notes from October 1, 2002 meeting

The following edits were suggested to the notes:

- C For (c), under Discussion of Guiding Principles, it should read, *"The issue of the potential for cross subsidization arose within the context of who should bear the burden of a default."*
- C For (d), under Discussion of Guiding Principles, an explanatory note was added following "Risk should follow profit/benefit" stating *"retailers and generators that profit should assume some of the risk"*.
- C Under Brainstorming: Potential Options/Solutions, it was identified that the rationale for obtaining deposit policies of private utilities be added to explain that *"the intention was to investigate how the private utilities had managed, in the past, without access to the tax roll."*
- C Under the 7th bullet, under additional points during the presentation, the issue of *balance sheet item versus P&L (profit & loss) item* was further elaborated on to state, *"In other words, a deposit and "pay-as-you-go" are similar in that the customer provides the LDC with cash before the invoice is received in both cases. However, a deposit is not an expense (no tax benefit), while "pay-as-you-go" is treated as an expense (tax benefit)."*

There were further discussions stemming from the review of Meeting Notes:

- C In terms of the "pay-as-you-go" option, it was identified that this would be more difficult for some LDCs. For example, Collus had 10 large customers to deal with, while an LDC like Milton Hydro would have 165 or about 2,000 for Toronto Hydro. This is an example of where there needs to be some flexibility in terms of guidance

from the OEB. There is also no cost allocated within approved rates for increased monitoring and staff resources associated with this option.

- C The EDA explained that themselves, along with a number of LDCs, had proposed an Urgent Market Rule amendment to the IMO to eliminate the current cash flow (settlement) mismatch by having LDCs only be obligated to “pay-as-collected” to the IMO.
- C One LDC identified that they were treating every customer as high risk until the OEB provides further guidance on the matter of security deposits.

2) Continuation of Discussion of Potential Solutions

- C Mandating all large customers in the retail market to be wholesale market participants had previously been discussed as a potential solution, however, it was identified that neither the OEB or the IMO may have the authority to accomplish this if the working group felt that this was an appropriate option.
- C With respect to the possible solution of a residual risk pool, it was noted that some entity would need to manage it (an additional cost).
- C It was noted that, while other options appear to exist, LDCs appeared to be focusing primarily on security deposits as the primary mechanism to address default risk, however, many consumers and LDCs appeared to be unable to reach agreement on terms and conditions that were mutually acceptable.
- C Board staff noted that numerous potential solutions had been discussed by the working group over the past meetings. However, few addressed the issues specific to the security deposit policies, with respect to the terms and conditions, which had become the bone of contention between many LDCs and consumers (e.g., how long should security be retained, not providing options to cash, etc.). As a result, Board staff suggested walking through a specific security deposit policy to attempt to address the issues. The working group agreed and Board staff committed to e-mailing an example of a policy before the next meeting and requested that the working group members review it and come to the next meeting prepared with comments.
- C The Advocacy Center for Tenants Ontario (ACTO) joined the meeting and it was decided to continue the discussion of potential solutions after ACTO had an opportunity to dialogue with the working group.

3) Advocacy Center for Tenants Ontario (ACTO)

The Advocacy Center for Tenants Ontario (ACTO) had been invited to be a member of the working group when it was being established. While ACTO had to decline the invitation due to numerous other demands, they did want an opportunity to explain their issues and positions to the working group. The following is a summary of those issues and positions

as discussed by Mary Todorow (policy) and Mary Truemner (legal), as well as responses from working group members. (Note: M. Todorow also distributed some material to the working group members including two earlier letters that had been sent to the OEB regarding the matter of security deposits and information that could be used to determine a threshold for low income consumers from Statistics Canada).

- C Even if security deposit policies across LDCs do become more consistent, in terms of treatment of customers, ACTO suggested that deposits would have a disproportionate impact on low income consumers (i.e., may come down to a decision of whether to pay the rent/buy food vs providing a deposit to an LDC).
- C Requiring a security deposit from low income consumers could result in some of those consumers becoming homeless.
- C 2/3 of all low-income people in Ontario lived in tenant households in 1996 (based on information provided in Rental Housing Quick Facts). ACTO will provide updated information about the housing tenure of low-income Ontarians when 2001 census stats are released in May 2003.
- C ACTO also suggested that the primary concern for LDCs, in terms of defaults, is likely large volume customers (e.g., industrial, commercial), as opposed to low income tenants.
- C Consequently, ACTO's position was that all low income consumers should receive an exemption from LDC security deposit obligations. ACTO indicated that they were not at the meeting to discuss an exemption for low income consumers from being disconnected for non-payment of their electricity bill (i.e., competitive and non-competitive charges). Not the proper forum.
- C It was also noted that treating all customers equally, regardless of their circumstances, could be a form of constructive discrimination.
- C There was discussion of a low income threshold for the purpose of a low income exemption for consumers. While information from Statistics Canada was discussed (i.e., StatsCan's Low-Income Cut-Offs), ACTO needed to undertake further work on this matter.
- C Working Group members responded with a number of concerns including:
 - < For LDCs, there are a number of privacy concerns with respect to the information that would be required in determining which consumers should qualify for such an exemption.
 - < There would be a high cost associated with administering such low income exemptions.
 - < One LDC noted that, while large consumers may be a concern in terms of exposure, 60% of their write-offs (\$'s) were due to tenants.
 - < There is now a new business model for LDCs. They are now commercial entities as opposed to non-profit or social agencies. Administering social policy is the primarily the role of government.
 - < Electricity is not defined as a necessity of life (not an essential service).
 - < The courts had previously decided that it was legal for a distributor to require a security deposit from low income consumers.

4) Resumed the Discussion of Potential Solutions

Problem Statement

- **There is a need for a bad debt recovery mechanism incurred under a prudent management system**
 - 1) Require OEB approval of bad debt recovery mechanism
 - 2) Should cover receivables cycle + 76 days/105 days
 - 3) Goes to total exposure
 - 4) Working capital management/matching cash flows
 - 5) Need to be fair, reasonable, consistent, legal, practical
- **LDCs focusing on security deposit as mechanism to manage risk, exposure and possibly cash flow**
 - Need to come to an agreement on a mutually acceptable “concept” of a security deposit policy with respect to the terms and conditions – amount, duration, from whom?, type or form of deposit e.g. Letter of Credit, Cash, Accelerated Payment (weekly), etc.
- **Need to be mindful of the current environment in making recommendations. An environment of substantial bill increases, especially commodity-related, that have recently occurred and that LDCs still have a number of variance accounts with balances.**

Options

Note: The following options are not necessarily mutually exclusive.

i) Increase rates (through an OEB approved mechanism)

- C To cover bad debt allowance
- C Residual risk pool/ at what level?
- C Increasing load loss factor
- C Implementing credit management administration
- C Manage cost of money
- C LDCs are in a PBR environment, but this is like cost-of-service for adjusting bad debts expense. However, PBR applies to distribution business and this recovery is commodity-related.

ii) Develop guidelines to define prudence

- C Code amendments versus guideline
 - C Risk management tools
 - C Use existing business practices (i.e., not impede on current practices working for some LDCs such as “pay-as-you-go”), existing industry practices (e.g., other industries/ jurisdictions)
 - C Provide options to consumers
- iii) **Develop minimum standards for “true” security deposit policy ensuring provincial uniformity, encompassing various payment options. Outline who should be exempt/included (e.g., low income consumers?); do we define class/category?**
- iv) **Create “unsecured client” category for default recovery**
- a) Require potential future levy to recover for default from only the unsecured customers (i.e., chose not to pay a security deposit)
 - b) Could charge credit insurance cost to the unsecured customer class
 - c) Provides options to customers (i.e., paying security deposit like a form of insurance or not pay and assume the default risk)
 - d) Problematic if only one large customer.
- v) **Change rules in the Retail Settlement Code for Distributor-Consolidated Billing such that the Retailer shares in the risk of non-payment of their customers.**
- C Could be 50/50 split.
 - C Could be commodity risk (retailers) & non-competitive charge risk (LDCs)
- vi) **Develop a Dispute Resolution**
- a) Outline disconnection privileges – need “teeth”
 - b) Outline payment application on partial payments
- vii) **If the wholesale market residual risk pool cannot be extended to the retail market, an alternative is to make the necessary changes so that LDCs (and their consumers in the retail market) cease contributing to covering wholesale market defaults since wholesale market participants do not cover defaults in the retail market.**
- C Another separate residual risk pool could then be created for the retail market.
 - C Bring an end to the retail market cross-subsidizing the wholesale market in terms of defaults.
 - C Potential problem of cross-subsidization within retail market if separate retail market residual risk pool created. Some LDCs may have a

disproportionate number of defaults (due to local decisions), but cost would be recovered equally amongst all LDCs.

- C Could be relatively easy to implement. One option is to reduce the Wholesale Market Service Charge (WMSC) by the aggregate amount associated with all retail market defaults (subject to prudency reviews).

viii) Mandating all large customers in the retail market to be wholesale market participants.

- C It is uncertain whether the IMO or OEB has the authority to accomplish this. Who does? Would it require legislative changes?
- C A threshold would be required.

5) Other Matters

- C Board staff noted that it would likely be beneficial for the working group to prepare an Options Paper for OEB management and Board consideration. The working group members agreed. Board staff discussed two options: (1) Board staff to prepare the Options Paper based on working group discussions during the meetings; or (2) A sub-committee comprised of volunteers from the working group be struck to prepare the Options Paper. Board staff suggested that an Options Paper prepared by a multi-stakeholder sub-committee would likely be more balanced and result in a superior product. It would also likely be better received by the Board than a report prepared solely by Board Staff. There was consensus amongst the working group members to go with the sub-committee approach. Working group members began to volunteer. However, Board staff suggested that, since a number working group members were absent from the meeting, it would likely be more prudent for Board staff to send out an email after the meeting to all members soliciting their interest. The working group members agreed.

6) Next Meeting

Friday, October 18, 2002
9:30 a.m. to 2:30 p.m.
OEB offices
26th floor, Main Boardroom

Action Items

- 1) A sub-committee comprised of volunteers from the working group be struck to prepare an Options Paper.
Action: C. Cincar (OEB) to email all Working Group members following the meeting soliciting their interest (DONE).

- 2) Suggestion that there was a need to have comprehensive discussion focusing on security deposit policies themselves (i.e., specific terms and conditions) and an example of a policy would facilitate this discussion.
**Action: 1) C. Cincar (OEB) to e-mail an example of a security deposit policy before the next meeting (DONE).
2) Working group members to review the policy and come to the next meeting prepared with comments.**

- 3) Meeting Notes to be prepared summarizing the meeting.
**Action: Mary Jo Corkum (Milton Hydro) agreed to summarize the Problem Statement and listing of Potential Solutions.
Chris Cincar (OEB) agreed to prepare remainder of the Meeting Notes (DONE).**

- 4) Possible “minimum requirements” will be discussed at the next meeting.
Action: Working group members to review the possible “minimum requirements” discussed in the Discussion Paper prior to the next meeting (DONE).