

**Ontario Energy Board**  
P.O. Box 2319  
26th. Floor  
2300 Yonge Street  
Toronto ON M4P 1E4  
Telephone: 416- 481-1967  
Facsimile: 416- 440-7656  
Toll free: 1-888-632-6273

**Commission de l'Énergie de l'Ontario**  
C.P. 2319  
26e étage  
2300, rue Yonge  
Toronto ON M4P 1E4  
Téléphone: 416- 481-1967  
Télécopieur: 416- 440-7656  
Numéro sans frais: 1-888-632-6273



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**BY PRIORITY POST**

June 10, 2003

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**To : All Interested Persons**

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**Re : Consumer Security Deposit Policies - RP-2002-0146**

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In response to a range of concerns raised by various parties including electricity distributors ("LDCs"), consumers, and stakeholder associations regarding the consumer security deposit policies of electricity LDCs, a letter was issued by the Board to all electricity LDCs and other interested stakeholders on August 14, 2002. This letter identified that Board staff would be coordinating a working group to consider stakeholder input regarding these issues and the Board would advise interested parties of the results. The working group was comprised of LDCs as well as members representing small, medium and large consumers. A group representing low income consumers also provided input in the working group process.

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### **Working Group Process**

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There was consensus amongst working group members that there was a need for a change from the status quo with respect to security deposit policies to allow increased consistency and prescriptiveness across the province, but still allow some degree of flexibility. The working group's recommendations included minimum requirements and a specific set of terms and conditions (by customer class) for security deposit policies through code amendments.

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The working group was able to arrive at a consensus recommendation for the residential and non-residential (< 50 kW) consumer classes but was unable to reach a consensus recommendation for the large (> 50 kW) customer class. As a result, the working group provided three approaches, for large (> 50 kW) customers, which were presented to the Board for consideration.

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### **Proposed Changes to Board Codes**

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The Board is initiating, on its own motion, pursuant to section 74 of the Ontario Energy Board Act, a proceeding to obtain broad input on proposed changes to the Distribution System Code. There are also consequential changes to the Retail Settlement Code (see attached). All licensed electricity distributors in

the province must comply with the provisions of Board codes as a condition of licence.

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The purpose of the proposed changes to the codes is to consolidate all requirements associated with consumer security deposits within one code — the Distribution System Code (DSC) — as well as to respond to the concerns raised and the working group’s recommendations. New proposed provisions have been added with the intent to increase consistency amongst Ontario electricity LDCs in terms of their treatment of consumers with respect to security deposit requirements.

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Proposed changes to the codes specifically include:

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- moving section 7.4.3 of the Retail Settlement Code (RSC) to the DSC;
- adding a provision to the DSC to require electricity LDCs to adhere to a set of Minimum Requirements in preparing their consumer security deposit policies; and
- adding provisions to the DSC to require electricity LDCs to incorporate a common set of Terms and Conditions (by customer class) into their security deposit policies for consumers.

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These proposed terms and conditions take into consideration a consumer’s credit-worthiness as well as an LDC’s degree of exposure to consumer non-payment risk. These considerations are reflected in the proposed standard formula LDCs would use to calculate maximum deposit amounts which takes into account a consumer’s electricity consumption.

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Whether a consumer is required to provide a deposit would be based on the consumer’s good payment history (“GPH”) which may come from another Ontario electricity or natural gas LDC. If required to provide a deposit, residential consumers would provide a deposit for up to a maximum of 1 year, small and medium size customers (< 50 kW) would be required to provide one for up to 5 years and large customers (> 50 kW), representing the greatest degree of non-payment risk, would have their deposit refunded after 7 years of GPH.

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The proposed changes take into consideration the legislative objectives in the OEB Act that the Board must adhere to in making their decisions which include “protecting the interests of consumers with respect to prices and the reliability and quality of electricity service” as well as “facilitating the maintenance of a financially viable electricity industry”. These proposed deposit terms and conditions are also relatively consistent with those of Ontario natural gas LDCs and the credit requirements in other jurisdictions (for further information, please see the Board staff Discussion Paper posted on the OEB web site). The option for large consumers is designed to balance the interests of LDCs and large consumers.

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The Board has also recognized the working group’s recommendation of allowing for some flexibility while bringing about increased consistency. The Board would also like to note that the terms and conditions are maximum requirements. This is to provide an LDC with some degree of discretion where the code contains more onerous security deposit requirements than an LDC currently requires their consumers to pay. In other words, an LDC may implement less (but not more) stringent terms and conditions.

## Potential Implementation Issues & Further Consultation

The working group did raise some potential implementation issues with some options considered; for example, deposit refunds being returned "automatically" upon a customer achieving the necessary GPH criteria. Some LDCs were concerned that implementation of this change would involve costly changes to their billing systems. This would mean a potential increase in distribution rates for all consumers to recover those implementation costs. Accordingly, it is proposed that LDCs refund the deposit upon a customer's request.

Another implementation issue taken into consideration was that, since current LDC security deposit policies differ from each other, some (if not all) LDCs will need to make security deposit policy changes and communicate those changes to their customers. This will take time. Thus, the Board has proposed that the code amendments not come into force for a period of 3 months once finalized.

Stakeholders are asked to take this opportunity to provide the Board with input on implementation issues and concerns that may not have been raised in the working group process and may need to be taken into consideration by the Board in making their final decision.

The following are some areas or issues Board staff have identified where such further input may be useful:

- (1) Are there any sections in the proposed amendments that require clarification?
- (2) Is 3 months an appropriate period of time for LDCs to bring their security deposit policies into compliance and properly communicate those changes to their customers? If not, explain how much time is required and provide a rationale.
- (3) As noted above, the focus on maximum requirements is to prevent an LDC from being forced to require consumers to post a security deposit or pay a higher deposit than an LDC already requires. Has this goal been accomplished?
- (4) Consumer deposits would be reviewed and updated annually by each LDC. Would such a requirement have implications for any LDCs? If so, please explain.
- (5) Consumer's would be able to provide a GPH reference from any other Ontario utility. Would this have implications for any LDCs including the requirement to provide the reference? If so, please explain.
- (6) Is a more specific definition of what constitutes an acceptable credit check required in the code?
- (7) Is the method for calculating a security deposit for non-residential < 50 kW consumers using customer specific average consumption appropriate or would the use of a class (*and/or sub-class*) average usage be more acceptable?

These are only some issues that you may wish to comment on. Please feel free to provide input on other implementation issues or areas of concern. In providing input, please provide a detailed description of your concern and what changes would need to be made to the proposed code amendments to address your concern, specifically referencing the relevant proposed sections of the amendments and the applicable customer class.

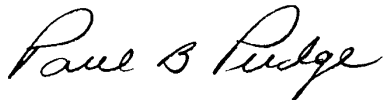
The Board and Board staff are aware of other broader issues and concerns related to market design as a result of input provided through the working group process. However, the Board does not have jurisdiction over those issues and/or they may be addressed in other forums. As a result, please keep your comments focused on the issue of security deposit policy terms and conditions.

The Board would like to take this opportunity to thank the members of the working group for their valuable input and the time and effort they contributed to the process.

Attached and also on the Board web site are the Proposed Code Amendments [[oeb:12RYS-0:1](#)] and the Notice of Proceeding [[oeb:12RYR-0:1](#)] which will be published across the Province. Comments on the proposed code amendments must be filed by **July 10, 2003**. **The Notice of Proceeding fully describes how to participate in this process.**

If you have any questions regarding this proceeding, please contact Chris Cincar at 416-440-7696 or by e-mail at [chris.cincar@oeb.gov.on.ca](mailto:chris.cincar@oeb.gov.on.ca) or toll free 1-888-632-6273.

Yours truly,



Paul B. Pudge  
Board Secretary