

**PROPOSED AMENDMENTS TO
THE DISTRIBUTION SYSTEM CODE
AND
THE RETAIL SETTLEMENT CODE**

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Section 7.2.3, the second paragraph of section 7.3.2 and section 7.4.3 of the Retail Settlement Code are revoked on the day that section 2.4.6.1 of the Distribution System Code comes into force.

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Section 1.2 of the Distribution System Code (the “Code”) is amended to add the following definitions:

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“competitive retailer” is a person who retails electricity to consumers who do not take Standard Supply Service (“SSS”).

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“disconnect/collect trip” is a visit to a customer’s premises by an employee or agent of the distributor to demand payment of an outstanding amount and to shut off or limit distribution of electricity to the customer failing payment.

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Section 1.7 is amended by adding the following paragraphs at the end of the section:

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Any amendments to this Code shall come into force on the date the Board publishes the amendments by placing them on the Board’s website after they have been made by the Board, except where expressly provided otherwise.

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Sections 2.4.6.1, 2.4.6.2 and 2.4.9 to 2.4.28 come into force on the day that is 6 months after these sections are published on the Board’s website after having been made by the Board.

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Section 2.4.1 is amended by adding the following sentence at the end of the section:

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Subject to this Code and other applicable laws, a distributor shall comply with its Conditions of Service but may waive a provision of its Conditions of Service in favour of a customer or potential customer.

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Chapter 2 of the Code is amended by adding the following sections:

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2.4.6.1 A distributor’s Conditions of Service shall include the distributor’s security deposit policy which shall be consistent with the provisions of this Code. A distributor’s security deposit policy shall include at a minimum the following:

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- a list of all potential types/forms of security accepted; 13
- a detailed description of how the amount of security is calculated; 14
- limits on amount of security required; 15
- the planned frequency, process and timing for updating security; 16
- a description of how interest payable to customers on deposits is determined; 17
- criteria consumer must meet to have security deposit waived and/or returned; and 18
- methods of enforcement where a security deposit is not paid. 19

2.4.6.2 Subject to this Code and a distributor's Conditions of Service, a distributor may use any risk mitigation options available under law to manage customer non-payment risk. A distributor shall not discriminate among customers with similar risk profiles or risk related factors except where expressly permitted under this Code. 20

2.4.9 A distributor may require a security deposit from a customer who is not billed by a competitive retailer under retailer-consolidated billing unless the customer has a good payment history of 1 year in the case of a residential customer, 5 years in the case of a non-residential customer in a <50 kW demand rate class or 7 years in the case of a non-residential customer in a >50 kW demand rate class. The time period that makes up the good payment history must be the most recent period of time and some of the time period must have occurred in the previous 24 months. A distributor shall provide a customer with the specific reasons for requiring a security deposit from the customer. 21

2.4.10 For the purposes of section 2.4.9, a customer is deemed to have a good payment history unless, during the time period set out in section 2.4.9, the customer has received more than one disconnection notice from the distributor, a cheque given to the distributor by the customer has been returned for insufficient funds, a pre-authorized payment to the distributor has been returned for insufficient funds or a disconnect / collect trip has occurred. If any of the preceding events occur due to an error by the distributor, the customer's good payment history shall not be affected. 22

2.4.11 Despite section 2.4.9, a distributor shall not require a security deposit where: 23

- (a) a customer provides a letter from another distributor or gas distributor in Canada confirming a good payment history with that distributor for the most recent relevant time period set out in section 2.4.9 where some of the time period which makes up the good payment history has occurred in the previous 24 months; or 24

(b) a non-residential customer with a demand < 5000 kW provides a satisfactory credit check made at the customer's expense.

2.4.12 The maximum amount of a security deposit which a distributor may require a customer to pay shall be calculated in the following manner:

billing cycle factor x estimated bill based on the customer's average monthly load with the distributor during the most recent 12 consecutive months within the past two years.

Where usage information is not available for the customer for 12 consecutive months within the past two years or where the distributor does not have systems capable of making the above calculation, the customer's average monthly load shall be based on a reasonable estimate made by the distributor.

2.4.13 Despite section 2.4.12, where a non-residential customer with a > 5000 kW demand has a credit rating from a recognized credit rating agency, the maximum amount of a security deposit which the distributor may require the non-residential customer to pay shall be reduced in accordance with the following table:

| Credit Rating | Allowable Reduction in Security Deposit |
|---|--|
| <i>(Using Standard and Poor's Rating Terminology)</i> | |
| AAA- and above or equivalent | 100% |
| AA-, AA, AA+ or equivalent | 95% |
| A-, From A, A+ to below AA or equivalent | 85% |
| BBB-, From BBB, BBB+ to below A or equivalent | 75% |
| Below BBB- or equivalent | 0% |

2.4.14 For the purposes of calculating the estimated bill under section 2.4.12 for a low-volume consumer or designated consumer who is billed under SSS or distributor-consolidated billing, the price estimate used in calculating competitive electricity costs shall be the same as the price used by the IMO for the purpose of determining maximum net exposures and prudential support obligations for distributors, low-volume consumers and designated consumers. For the purpose of calculating the estimated bill under section 2.4.12 for all other customers billed under SSS or distributor-consolidated billing, the price estimate used in calculating competitive electricity costs shall be the same as the price used by the IMO for the purpose of determining maximum net exposures and prudential support obligations for market participants other than distributors, low-volume consumers and designated consumers.

2.4.15 Subject to section 2.4.6.2, a distributor may in its discretion reduce the amount of a security deposit which it requires a customer to pay for any reason including where the customer pays under an interim payment arrangement and where the customer makes pre-authorized payments.

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2.4.16 For the purposes of sections 2.4.12, the billing cycle factor is 2.5 if the customer is billed monthly, 1.75 if the customer is billed bi-monthly and 1.5 if the customer is billed quarterly.

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2.4.17 Where a customer has a payment history which discloses more than one disconnection notice in a relevant 12 month period, the distributor may use that customer's highest actual or estimated monthly load for the most recent 12 consecutive months within the past 2 years for the purposes of making the calculation of the maximum amount of security deposit under section 2.4.12.

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2.4.18 The form of payment of a security deposit for a residential customer shall be cash or cheque at the discretion of the customer or such other form as is acceptable to the distributor.

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2.4.19 The form of payment of a security deposit for a non-residential customer shall be cash, cheque or an irrevocable letter of credit from a bank as defined in the Bank Act, 1991, c.46 at the discretion of the customer. The distributor may also accept other forms of security such as surety bonds and third party guarantees.

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2.4.20 A distributor shall permit the customer to provide a security deposit in installments. Where a security deposit is collected in installments, the security deposit shall be collected in equal installments over no more than 4 months.

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2.4.21 Interest shall accrue monthly on security deposits made by way of cash or cheque commencing on receipt of the total deposit required by the distributor at the Prime Business Rate as published on the Bank of Canada website less 2 percent. The interest accrued shall be paid out at least once every 12 months or on return or application of the security deposit or closure of the account, whichever comes first, and may be paid by crediting the account of the customer or otherwise.

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2.4.22 A distributor shall review every customer's security deposit at least once in a calendar year to determine whether the entire amount of the security deposit is to be returned to the customer as the customer is now in a position that it would be exempt from paying a security deposit under section 2.4.9 or 2.4.11 had it not already paid a security deposit or whether the amount of the security deposit is to be adjusted based on a re-calculation of the maximum amount of the security deposit under section 2.4.12, or 2.4.13.

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2.4.23 A customer may, no earlier than 12 months after the payment of a security deposit or the making of a prior demand for a review, demand in writing that a distributor undertake a review to determine whether the entire amount of the security deposit is to be returned to the customer as the customer is now in a position that it would be exempt from paying a security deposit under section 2.4.9 or 2.4.11 had it not already paid a security deposit or whether the amount of the security deposit is to be adjusted based on a re-calculation of the maximum amount of the security deposit under section 2.4.12 or 2.4.13.

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2.4.24 Despite section 2.4.22, a distributor is not required to review a security deposit paid prior to (specific date when this amendment made by the Board to be inserted) until the calendar year 2005. Despite section 2.4.23, a customer may not demand a review of a security deposit paid prior to (specific date when this amendment made by the Board to be inserted) until January 1, 2005.

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2.4.25 Where the distributor determines in conducting a review under section 2.4.22 or 2.4.23 that some or all of the security deposit is to be returned to the customer, the distributor shall promptly return this amount to the customer by crediting the customer's account or otherwise. Despite sections 2.4.22 and 2.4.23, in the case of a non-residential customer with a > 5000 kW demand, where the customer is now in a position that it would be exempt from paying a security deposit under section 2.4.9 or 2.4.11 had it not already paid a security deposit, the distributor is only required to return 50% of the security deposit held by the distributor. Where the distributor determines that the maximum amount of the security deposit is to be adjusted upward, the distributor may require the customer to pay this additional amount at the same time as that customer's next regular bill comes due.

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2.4.26 A distributor shall promptly return any security deposit received from the customer upon closure of the customer's account, subject to the distributor's right to use the security deposit to set off other amounts owing by the customer to the distributor. The security deposit shall be returned within 1 month of the closure of an account.

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2.4.27 A distributor shall apply a security deposit to the final bill prior to the change in service where a customer changes from SSS to a competitive retailer that uses retailer-consolidated billing or a customer changes billing options from distributor-consolidated billing to split billing or retailer-consolidated billing. A distributor shall promptly return any remaining amount of the security deposit to the customer. A distributor shall not pay any portion of a customer's security deposit to a competitive retailer. Where a change is made from distributor-consolidated billing to split billing, a distributor may retain a portion of the security deposit amount that reflects the non-payment risk associated with the new billing option.

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2.4.28 For the purposes of sections 2.4.9 and 2.4.18, a seasonal customer who is not classified as a general service customer or a customer who has a farm with a dwelling that is occupied as a residence continuously for at least 8 months of the year shall be deemed to be a residential customer.

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