



<b>Policy 6.0</b>	<b>Version 3.0</b>
<b>Security Deposits</b>	<b>Created: June, 2002</b> <b>Latest Revision: June 21, 2004</b>

**6.0.1 PURPOSE:**

This policy describes the terms and conditions distributors will use for collection, maintaining and returning customer security deposits while complying with the applicable legislation and codes.

In accordance with the Distribution System Code and Retail Settlement Code must include:

- a list of all potential types/forms of security accepted;
  - a detailed description of how the security is calculated;
  - limits on the amount of security required;
  - the planned frequency, process and timing of updating security;
  - a description of how interest payable to customers is determined;
  - criteria customer must meet to have security deposit waived and/or returned;
- and
- methods of enforcements where a security deposit is not paid.

**6.0.2 POLICY STATEMENT:**

A distributor may use any risk mitigation options available to manage customer nonpayment risk. A distributor shall not discriminate among customers with similar risk profiles or risk related factors except where expressly permitted under the Distribution System Code.

A distributor will comply with the deposit requirements as defined in the Distribution System and Retail Settlement Codes but may waive these requirements in favour of a customer or potential customer.



### **6.0.3 FORM OF SECURITY DEPOSIT:**

#### **Residential**

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.

#### **General Service**

The security deposit will be in the form of cash, cheque or an automatically renewing, irrevocable letter of credit from a bank for non residential customers.

The distributor may also accept other forms of security.

The distributor shall permit customer to pay security deposit in 4 equal monthly instalments, the first instalment being due on the implementation of an implied contract or the signing of service agreement. The customer may pay the security deposit over a shorter period of time.

The reasons for requiring the security deposit must be disclosed to the customer.

### **6.0.4 METHOD OF CALCULATION AND LIMIT OF SECURITY DEPOSIT:**

The maximum amount of the security deposit that a customer is required to pay is calculated using:

- the billing cycle factor times the estimated bill based on the customer's average monthly load with the distributor in the most recent 12 consecutive months within the last two years.
- Where relevant usage information is not available for the customer for 12 consecutive months within the past two years or the billing system is not capable of making the calculation, the customer's average monthly load shall be based on a reasonable estimate made by the distributor.

Where a customer has a payment history which discloses more than one disconnection notice in a relevant 12 month period, the distributor may use the



customer's highest actual or estimated monthly load for the most recent 12 consecutive months within the past 2 years for the purposes of calculating the maximum amount of the security deposit.

For a low-volume consumer or designated consumer 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.

If a non-residential customer with a >50kW demand rate can provide a credit rating from a recognized credit rating agency, the maximum amount of the security deposit required by the distributor shall be reduced in accordance with the following table:

Credit Rating

(Using Standard and Poor's Rating Terminology)

Allowable Reduction in Security Deposit

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%

**6.0.5 PLANNED FREQUENCY, PROCESS AND TIMING OF UPDATING SECURITY DEPOSITS:**

The distributor shall review every customer's security deposit at least once every calendar year to determine whether the entire amount of the security deposit is to be returned to the customer or adjusted based on a re-calculation of the maximum amount of the security deposit.

When the distributor determines in conducting a review 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 the customer's next regular bill comes due. A customer may demand in writing, no earlier than 12 months after payment of a security deposit or the making of a prior demand for a review, that the distributor



undertake a review to determine whether the amount of the security deposit is to be returned to the customer or adjusted based on a re-calculation of the maximum amount of the security deposit. If some or all of the security deposit is to be returned to the customer, the distributor shall promptly return this amount.

Any security deposit received from the customer upon closure of the customer account, shall be applied to the final bill prior to change in service and can be used to off-set other amounts owing by the customer to the distributor. The balance shall be returned within six weeks of closure of the account.

#### **6.0.6 INTEREST PAYABLE:**

The interest shall accrue monthly on security deposits made by cash or cheque commencing on receipt of the total deposit. The interest shall be at the Prime Business Rate as published on the Bank of Canada website less 2 percent, updated quarterly. The interest accrued shall be paid 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 credited to the account.

#### **6.0.7 CRITERIA REQUIRED FOR WAIVERED AND/OR RETURN OF SECURITY DEPOSIT:**

The distributor reserves the right to collect a security deposit from a customer that 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 < 50 kW demand rate class, or
- 7 years in the case of a non-residential customer in any other 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 occur in the previous 24 months.

A customer is deemed to have a good payment history, unless, during the relevant time period the customer has received:

- more than one disconnection notice from the distributor, or
- more than one cheque given to the distributor by the customer has been returned for insufficient funds, or
- more than one pre-authorized payment to the distributor has been returned for insufficient funds, or
- a disconnection/collection trip has occurred.

The distributor shall not require a security deposit if the customer provides the following prior to the implementation of service:

- the customer provides a letter from another distributor or gas distributor in Canada confirming a good payment history for the most recent relevant time period, some of this time period must have incurred within the last 24 months,
- a customer, other than a customer in a >5,000 kW demand rate class, that provides a satisfactory credit check made at the customer's expense,
- If a non-residential customer with a >50kW demand rate can provide a credit rating from a recognized credit rating agency, the maximum amount of the security deposit required by the distributor shall be reduced in accordance with the following table:

Credit Rating  
(Using Standard and Poor's Rating Terminology)  
Allowable Reduction in Security Deposit

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%

However, when the distributor determines in conducting a review 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 the customer's next regular bill comes due.

In the case of a customer in a >5,000kW demand rate class, where the customer is now in a position that it would be exempt from paying a security deposit, however, had previously paid a security deposit to the distributor, the distributor is only required to return 50% of the security deposit.

#### **6.0.8 METHOD OF ENFORCEMENT WHERE SECURITY DEPOSIT IS NOT PAID:**

Failure to pay the security deposit as required will result in the immediate implementation of the distributor's collection policy process which may lead to the discontinuation of electrical service.

#### **6.0.9 DEFINITIONS:**

**"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.

**"Disconnection/Collection Trip"** is a visit to a customer's premises by an employee or agent of the distributor to demand payment of an outstanding amount or to shut off or limit distribution of electricity of the customer failing payment.

#### **6.0.10 RESPONSIBILITIES:**

The management of the company is responsible for ensuring that the corporation is protected from undue risk of bad debt.

#### **6.0.11 REFERENCES:**

*The Electricity Act, 1998* – Province of Ontario, Ministry of Energy, Science and Technology

*Market Rules* – The Independent Electricity Market Operator

*Distribution System Code* – The Ontario Energy Board

*Retail Settlement Code* – The Ontario Energy Board

*Electricity Distribution Rates Handbook* – The Ontario Energy Board