

<b>Policy 2.01 – SECURITY DEPOSIT POLICY</b>	<b>Version 1.0</b>
	<i>Created: March 2017</i> <i>Latest Revision: April 2019</i>

### **2.01.01 – 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.

### **2.01.02 – POLICY STATEMENT:**

A distributor will comply with the deposit requirements as defined in the Distribution System Code, Retail Settlement Code, Standard Supply Service Code, and the Distribution Rate Handbook but may waive these requirements in favor of a customer or potential customer.

### **2.01.03 – MINIMUM REQUIREMENTS:**

A distributor's security deposit policy shall include at a minimum the following:

- 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 (*Ref: DSC 2.4.6.1*).

In managing customer non-payment 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 (*Ref: DSC 2.4.6.2*).

### **2.01.04 – CRITERIA FOR WAIVER OR RETURN OF SECURITY DEPOSIT:**

The 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 < 50 kW 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

distributor shall provide a customer with the specific reasons for requiring a security deposit from the customer (*Ref: DSC 2.4.9*).

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;
- more than one cheque given to the distributor by the customer has been returned for insufficient funds;
- more than one pre-authorized payment to the distributor has been returned for insufficient funds;
- a disconnection/collection trip has occurred; or
- a distributor had to apply a security deposit to the arrears on the account and required the customer to repay the security deposit.

If any of the preceding events occur due to an error by the distributor, the customer's good payment history shall not be affected (*Ref: DSC 2.4.10*).

The distributor shall not require a security deposit where:

- the customer provides a letter from another electricity distributor or gas distributor in Canada confirming a good payment history with that distributor for the most recent relevant time period, where some of the time period which makes up the good payment history has occurred in the previous 24 months; or,
- 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 (*Ref: DSC 2.4.11*).

#### **2.01.05 – METHOD OF CALCULATION AND LIMIT OF SECURITY DEPOSIT:**

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

- The "**Billing Cycle Factor**" times the estimated bill based on the customer's average monthly consumption/load with the distributor in the most recent 12 consecutive months within the past two years; or

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 consumption/load shall be based on a reasonable estimate made by the distributor (*Ref: DSC 2.4.12*).

Where a non-residential customer in any rate class other than a <50kW demand rate class has 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 (Ref: DSC 2.4.13):

<b>Credit Rating</b> (Using Standard and Poor's Rating Terminology)	Allowable Reduction
AAA- and above or equivalent	100%
AA-, AA, AA+ or equivalent	95%
A-, A, A+ or equivalent	85%
BBB-, BBB, BBB+ or equivalent	75%
Below BBB- or equivalent	0%

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 (Ref: DSC 2.4.15).

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 (Ref: DSC 2.4.16).

Where a customer, other than a residential electricity 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 the security deposit (Ref: DSC 2.4.17).

#### **2.01.06 – 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 (Ref: DSC 2.4.18).

**General Service** – The form of payment of a security deposit for a non-residential customer shall be cash, cheque or an automatically renewing, irrevocable letter of credit from a bank as defined in the *Bank Act 1991*, S. 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 (Ref: DSC 2.4.19).

The distributor shall permit the customer to provide a security deposit in equal instalments paid over a period of at least four months. A customer may, in its discretion, choose to pay the security deposit over a shorter period of time (Ref: DSC 2.4.20).

Despite the above, a distributor shall permit a residential customer to provide a security deposit in equal installments paid over a period of at least 6 months, including where a new security deposit is required due to the distributor having applied the existing security deposit against amounts owing. A customer may elect to pay the security deposit over a shorter period of time (Ref: DSC 2.4.20A).

**2.01.07 – INTEREST PAYABLE:**

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. 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 out at least once every 12 months, 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 (*Ref: DSC 2.4.21*).

**2.01.08 – 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 (*Ref: DSC 2.4.22*).

**Residential Customer** – Where a residential customer has paid a security deposit in instalments, a distributor shall conduct a review of the customer's security deposit in the calendar year following the first anniversary of the initial instalment and thereafter at the next review as required by this policy (*Ref: DSC 2.4.22A*).

A customer may, no earlier than 12 months after 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 or whether the amount of the security deposit is to be adjusted based on a recalculation of the maximum amount of the security deposit (*Ref: DSC 2.4.23*).

**Residential Customer** – Where a residential customer has paid a security deposit in instalments, the customer shall not be entitled to request a review of the security deposit until 12 months after the first installment was paid (*Ref: DSC 2.4.23A*).

Where the distributor determines in conducting a review 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.

**>5000kW** – In the case of a customer in a >5000 kW demand rate class, where the customer is now in a position that it would be exempt from paying a security deposit, the distributor is only required to return 50% of the security deposit held by the distributor.

Where 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 (*Ref: DSC 2.4.25*).

**Residential** – Where a residential electricity customer is required to adjust the security deposit upwards, a distributor shall permit the customer to pay the adjustment amount in equal installments paid over a period of at least 6 months. A customer may elect to pay the security deposit over a shorter period of time (*Ref: DSC 2.4.25A*).

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 off-set other amounts owing by the customer to the distributor. The security deposit shall be returned within six weeks of the closure of an account (*Ref: DSC 2.4.26*).

**Residential** – A distributor shall not issue a disconnection notice to a residential customer for non-payment unless the distributor has first applied any security deposit held on account for the customer against any amounts owing at that time and the security deposit was insufficient to cover the total amount owing (*Ref: DSC 2.4.26A*).

**Residential** – Where a distributor applies all or part of a security deposit to off-set amounts owing by a residential customer, the distributor may request that the customer repay the amount of the security deposit that was so applied. The distributor shall allow the residential customer to repay the security deposit as per the requirements of this policy (*Ref: DSC 2.4.26B*).

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 (*Ref: DSC 2.4.27*).

Where all or part of a security deposit has been paid by a third party on behalf of a customer, the distributor shall return the amount of the security deposit paid by the third party, including interest, where applicable, to the third party. This obligation shall apply where and to the extent that:

- the third party paid all or part (as applicable) of the security deposit directly to the distributor;

- the third party has requested, at the time the security deposit was paid or within a reasonable time thereafter, that the distributor return all or part (as applicable) of the security deposit to it rather than to the customer; and
- there is not then any amount overdue for payment by the customer that the distributor is permitted by this Code to offset using the security deposit (*Ref: DSC 2.4.28*).

The following customers shall be deemed to be residential customers:

- a. seasonal customers who are not classified as general service customers; and
- b. customers of a distributor with a farm rate class who have farms with a dwelling that is occupied as a residence continuously for at least 8 months of the year, where the customer has a < 50 kW demand (*Ref: DSC 2.4.29*).

A customer that is a corporation within the meaning of the *Condominium Act*, 1998 who has an account with a distributor that:

- a. relates to a property defined in the *Condominium Act*, 1998 and comprised predominantly of units that are used for residential purposes; and
- b. relates to more than one unit in the property,

shall be deemed to be a residential customer provided that the customer has filed with the distributor a declaration in a form approved by the Board attesting to the customer's status as a corporation within the meaning of the *Condominium Act*, 1998 (*Ref: DSC 2.4.30*).

#### **2.01.09 – 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 which may lead to the discontinuation of electrical service.

#### **2.01.10 – RESPONSIBILITIES:**

Distributor management is responsible for ensuring this policy is implemented and adhered to by the employees of the distributor.