

C2-40

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- I recommend that, in the absence of adoption of my first recommendation, that the Company be barred from using credit scores obtained through an external credit rating agency as the basis for a deposit; and

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- I recommend that the Company offer to accept a range of securities and guarantees that do not involve posting a cash security deposit.

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I will examine each of these recommendations in greater detail below. Before examining these specific proposals, however, I will respond to the Company's assertion that its "current security deposit practices are largely ineffective." (BCOAPO 1.192.1, Attachment 1, at 37, citing BCOAPO 1.198.2).¹ I also note the business practices proposed by BC Hydro with which I agree.

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14 **Q.**

PLEASE IDENTIFY THOSE SECURITY DEPOSIT PRACTICES PROPOSED BY BC HYDRO IN THIS PROCEEDING WITH WHICH YOU AGREE AND RECOMMEND APPROVAL.

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17 **A.**

BC Hydro proposes that security deposits will be waived for low-income customers whose payments are being made by MSDSI. BC Hydro further states that it is "exploring" waiving security deposits for customers whose BC Hydro bills are paid indirectly by MSDSI ("MSDSI Indirect clients") (about 124,000 of BC Hydro's low-

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¹ While BC Hydro has stated that it is "considering" extending this time period for an automatic return, in view of evidence that 12 months is ineffective for rental apartments" (BCOAPO 1.190.2), no such proposal has been advanced in this proceeding by BC Hydro. For that reason alone, no response is made to such a proposal. No decision request has been placed before the Commission.

1 income customers). (BCOAPO 1.192.1, Attachment 1, at 39). I endorse the waiver of
2 security deposits for customers whose bills are directly paid by MSDSI. I discussed in
3 more detail above (in my discussion of the Essential Services usage block) how MSDSI
4 direct payments reduce arrearages and make it unlikely that such accounts would impose
5 any bad debt expense on the Company. Moreover, it is not clear what level of
6 commitment is evidenced by BC Hydro’s “exploring” waiving security deposits for
7 MSDSI Indirect clients. To take this action, however, would be consistent with my
8 discussion below. While BC Hydro said that it would “provide its proposal on this
9 subject as part of its responses to RDA Round 2 IRs, anticipated to be sometime in March
10 2016,” (BCOAPO 1.192.1, Attachment 1, at 40), no such further proposal has yet to be
11 seen.

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13 **Q. PLEASE RESPOND TO BC HYDRO’S ASSERTION THAT ITS “CURRENT**
14 **SECURITY DEPOSIT PRACTICES ARE LARGELY INEFFECTIVE.”**

15 A. In asserting that its current security deposit practices “are largely ineffective,” BC Hydro
16 relies upon an internal review of customers who have imposed uncollectible accounts
17 (i.e., bad debt) and customers who have posted security deposits. (BCOAPO 1.198.2).
18 There are significant flaws in the reasoning presented in this review, however, upon
19 which BC Hydro relies in reaching the conclusion that “security deposits are not assessed
20 from the right customers.” (BCOAPO 1.192.1, Attachment 1, at 39). For example:

- 21 ➤ BC Hydro states that “only 10 percent of new residential accounts had initially
22 been assessed security deposits.” (BCOAPO 1.192.1, Attachment 1, at 39).

23 What BC Hydro did not say, however, was that out of the 94,393 accounts

1 represented by the “10%” (BCOAPO 2.320.1(1)), 69,326 of those accounts
2 had their deposits returned to them (BCOAPO 2.320.1(d)), demonstrating
3 that, in nearly 75% of the cases (69,326 / 94,393 = 0.73), the Company’s
4 review indicating that these accounts were poor risks was *incorrect*.

5 ➤ While BC Hydro states that “only 10 percent of new residential accounts had
6 initially been assessed security deposits,” it could not say of those accounts,
7 how many had final bills resulting in uncollectible dollars (BCOAPO
8 2.320.1(c)), or even how many of those accounts had received final bills
9 showing an arrearage at the time of the final bill. (BCOAPO 2.320.1(b)).

10 ➤ Amongst the 73% of the instances where the deposit was returned, BC Hydro
11 could not say how many of those accounts subsequently imposed no
12 uncollectible dollars on the Company. (BCOAPO 2.320.1(e)).

13 A decision rule that has erroneously assessed an account in 73% of the cases in which the
14 decision rule has been exercised cannot be corrected by *expanding* the number of
15 accounts on which the Company assesses deposits, as the Company proposes to do in this
16 proceeding.

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18 **Q. HAS THE COMPANY EXHIBITED ANY OTHER FUNDAMENTAL FLAWS IN**
19 **ITS ANALYSIS UPON WHICH IT BASES ITS PROPOSAL TO EXPAND THE**
20 **NUMBER OF RESIDENTIAL ACCOUNTS ON WHICH IT WILL IMPOSE**
21 **DEPOSITS?**

1 A. Yes. When BC Hydro states that “only” 10% of its new residential accounts initially had
2 been assessed a deposit (BCOAPO 1.192.1, Attachment 1, page 39), that means that 90%
3 of its new residential accounts had *not* been assessed a deposit ($1.0 - 0.10 = 0.90$). That
4 90% represents 847,059 new residential accounts. (BCOAPO 2.321.1(a)). Of that
5 0.847 million new accounts having had no deposit assessed, the Company cannot say the
6 number of accounts that received final bills showing arrears at the time of the final bill
7 (BCOAPO 2.321.1(b)); or the number of accounts receiving final bills resulting in
8 uncollectible dollars (BCOAPO 2.321.1(c)).

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10 The Company also misleads when it asserts that “83 per cent of closed accounts with
11 aged balances had never been assessed a security deposit.” (BCOAPO 1.192.1,
12 Attachment 1, at 39). While I do not question whether that statement is factually correct,
13 having a “closed account” with an aged balance does not mean that the Company
14 experienced uncollectible dollars as a result. In fact, the “83%” represents only 75,238
15 accounts. (BCOAPO 2.322.1(a)). Of those 75,238 accounts, the Company cannot say
16 how many of those “closed accounts with aged balances” resulted in *final bills* with aged
17 balances. (BCOAPO 2.322.1(b)). Nor can the Company say what proportion of those
18 75,238 accounts resulted in final bills yielding uncollectible dollars. (BCOAPO 2.322(c)).
19 However, even if 100% of those 75,238 accounts resulted in final bills yielding
20 uncollectible accounts, that number would represent only 4.7% of its total customer base
21 (given that the Company has nearly 1.6 *million* residential accounts) ($75,238 / 1,600,000$
22 $= 0.047$). (BCOAPO 2.321.1(a)). ///

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9 **Q. DO YOU HAVE A SECOND RECOMMENDATION REGARDING THE**
10 **IMPOSITION OF CASH SECURITY DEPOSITS GENERALLY?**

11 A. Yes. The Company should be prohibited from imposing a cash security deposit on an
12 applicant for service based on a credit rating from an external credit agency unless that
13 credit rating is based exclusively on the prior utility bill payment history of the new
14 applicant. In the immediately preceding three years, the Company assessed a cash
15 security deposit on 48,111 customers (2013), 48,597 customers (2014), and 46,498
16 customers (2015). (BCOAPO 1.218.1). The Company cannot report how many of those
17 deposits were assessed to new applicants and how many were assessed to existing
18 customers. (BCOAPO 1.218(2)). Nor can the Company report how many of those
19 deposits were based on a failure to have a “pass” rating from Equifax. (BCOAPO
20 1.218(2)).

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22 When BC Hydro obtains a rating from Equifax:

23 the underlying details are not known by BC Hydro. In performing a credit
24 check, BC Hydro’s call centre agents are provided with a ‘pass’ or ‘fail’

