

ITEM NO. CA7

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 20, 2018

REGULAR CONSENT EFFECTIVE DATE January 1, 2019

DATE: November 1, 2018

TO: Public Utility Commission

FROM: Ming Peng *MP*

THROUGH: Jason Eisdorfer and John Crider *EPJ EC*

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF: (Docket No. UM 779)
Commission determination of late-payment rate and interest accrued on customer deposits.

STAFF RECOMMENDATION:

Staff makes the following recommendations:

- (1) The Commission should approve a late-payment rate of 2.0 percent monthly on overdue customer accounts;
- (2) The Commission should approve an annual interest rate of 2.5 percent on customer deposits for calendar year 2019;
- (3) The Commission should direct the affected utilities to refile their respective tariffs to reflect the new rates.

DISCUSSION:

Issue

Whether the Commission should keep the late payment rate at 2.0 percent and change the interest rate for customer deposits applicable for customer accounts in 2019 to 2.5 percent from the 1.4 percent applicable in 2018.

Applicable Laws

Applicable Rules related to Late-Payment Rate Charged to Utility Customers
Oregon Administrative Rules (OAR) 860-021-0126(3), 860-036-1430(2), and 860-037-0115(2) specify that the Commission will determine the late-payment rate applicable to past-due accounts based on a survey of prevailing market rates for late-payment charges of commercial enterprises and will advise all energy, large telecommunications, regulated water, and wastewater utilities of the changes in the rate they may use to determine late-payment charges on overdue customer accounts. The current late-payment rate and the conditions for its application to customer accounts shall be specified on the utility bill.

Applicable Rules related to Interest Paid on Customer Deposits
OAR 860-021-0210(1), 860-034-0160(1), 860-036-1250(1), and 860-037-0045(1) specify that “each year, the Commission shall establish an annual interest rate that must be paid on customer deposits. The rules specify that for energy and large telecommunications, small telecommunications, and wastewater utilities, the Commission will “base the rate upon consideration of the effective interest rate for new issues of one-year Treasury Bills issued during the last week of October, the interest rate on the most recent issuance of one-year Treasury Bills, or the effective interest rate for the average yield of Treasury Bills of the closest term issued during the last week of October. This interest rate, rounded to the nearest one-half of one percent, shall apply to deposits held during January 1 through December 31 of the subsequent year.” These rules, and OAR 860-036-1240 relating to regulated water utilities, also specify that the Commission will advise the respective utilities of the changes in the rate to be paid on customer deposits.

Discussion and Analysis

Analysis of Late-payment Charge on Customers' Past Due Balance
Nationally, many utility companies establish a monthly percentage rate for determining late-payment charge such that the cost of not paying a utility bill is roughly equal to the cost of not paying a credit card.

To determine the late-payment rate based on a survey of prevailing market rates for late-payment charges of commercial enterprises, Staff recently surveyed over 40 commercial enterprises believed to be reasonably representative of the range of businesses likely to be patronized by utility customers.

The survey included department stores, retailers of gasoline, passenger rail and airline travel, hotels, household appliances, furniture, clothing, tires, hardware, consumer electronics, toys, books, office supplies, jewelry, home improvement products and

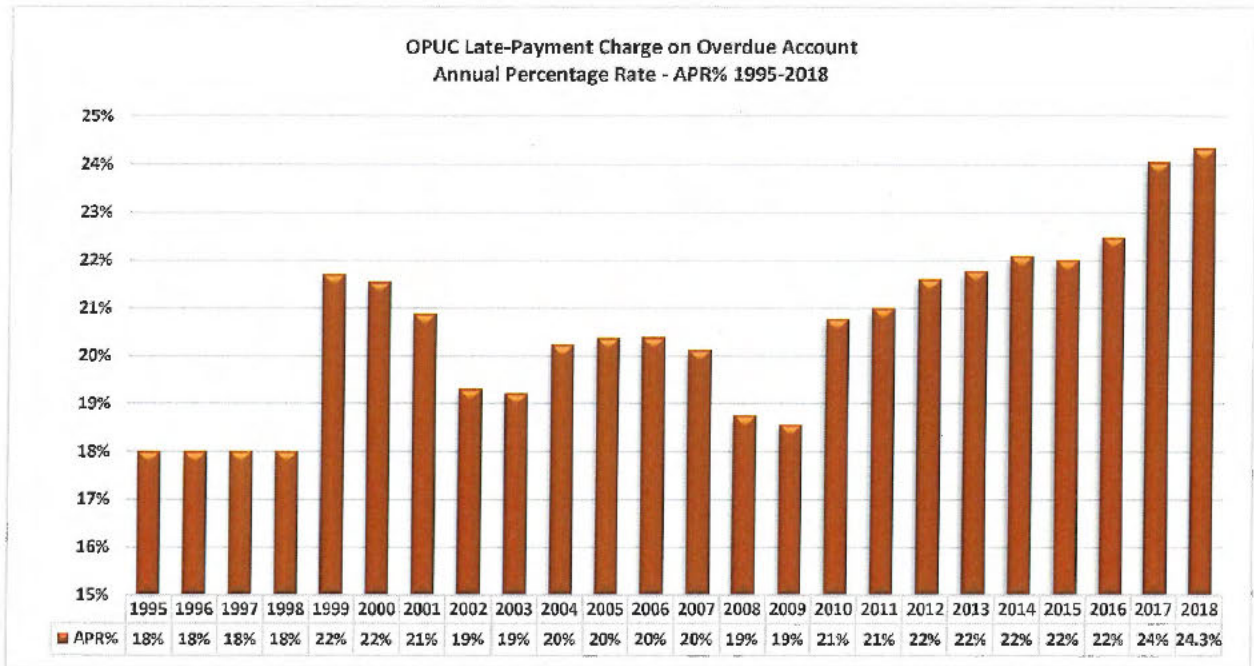
services, and other general merchandise. The survey also included providers of water and sewer services, recycling and disposal services, electricity and telecommunications services, and insurance companies.

Notably, the Commission-determined late-payment rate, based on average APR from the survey results, will be used by any energy, large telecommunications, regulated water, and wastewater utility that imposes a late fee and the utilities may not include an additional flat fee. However, most unregulated businesses (commercial enterprises) surveyed charge a flat fee for late payments from \$15 up to \$38, in addition to a finance charge of 1.42 percent to 2.50 percent per month. Also, some publicly-owned utilities (water/sewer and electricity) and insurance companies do not charge a late-payment fee. Past due accounts are subject to cancellation of the services or policies.

The surveys indicated that a 2.027 percent monthly charge, an average Annual Percentage Rate (APR) of 24.3 percent, is commonly applied by businesses for late payments. Staff concludes that the 2.0 percent late payment charge is reasonably consistent with the practices of commercial enterprises based on the results of Staff's survey.

Staff recommends no change in the current maximum late-payment rate of 2.0 percent monthly (an APR of 24.3 percent) for calendar year 2019. The late-payment rate is the percentage of a customer's past due balance utilities may charge customers having overdue accounts.

The figure below shows the late-payment rates that the Commission established from 1995 to 2018.



Analysis of Interest Paid on Customer Deposits

The Commission bases the rate upon consideration of the effective interest rate for new issues of 1-year Treasury Bills (T-bills)¹ issued during the last week of October, the interest rate on the most recent issuance of 1-year T-bills, or the effective interest rate for the average yield of T-bills of the closest term issued during the last week of October.²

There were no new issuances of 1-year T-bills that took place during the last week of October 2018. Staff used the average yields of T-bills of the closest term issued during the last week of October. On October 25, 26, 29, 30 and 31, 2018, *The Wall Street Journal* reported that the T-bills maturing on October 10, 2019 (344-350 days to maturity), had asking yields averaging 2.651 percent for the week.

¹ Treasury bills, or T-bills, are short-term debt instruments issued by the U.S Treasury, and issued for a term of one year or less. They do not pay interest, but rather are sold a discount to their face value. 'Treasury Yield' is the return on investment. T-bills are considered the world's safest debt as they are backed by the full faith and credit of the United States government.

² Although OAR 860-036-1250 specifies that the Commission will determine the customer deposit interest rate for regulated water utilities, it does not include the guide for calculating the rate that is included in the rules for the other utilities. Nonetheless, Staff recommends that the Commission use the same rate for regulated water utilities.

Per the applicable rules, the interest rate used for customer deposits should round to the nearest 0.5 percent. By applying the rules' 0.5 percent rounding requirements, Staff rounds the 2.651 interest rate obtained by its analysis to 2.5 percent. Accordingly, Staff recommends a 2.5 percent minimum interest rate at which utilities must credit customers for deposits for calendar year.

An increase from the currently effective 1.4 percent to 2.5 percent is supported by information from the September meeting of the Federal Open Market Committee (FOMC or the Committee). The Federal Reserve controls the three tools of monetary policy--open market operations, the discount rate, and reserve requirements. A press release regarding the FOMC's September 2018 meeting contains the following statements relating to federal funds rate and inflation:

"Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low. Household spending and business fixed investment have grown strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent."

"The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term."

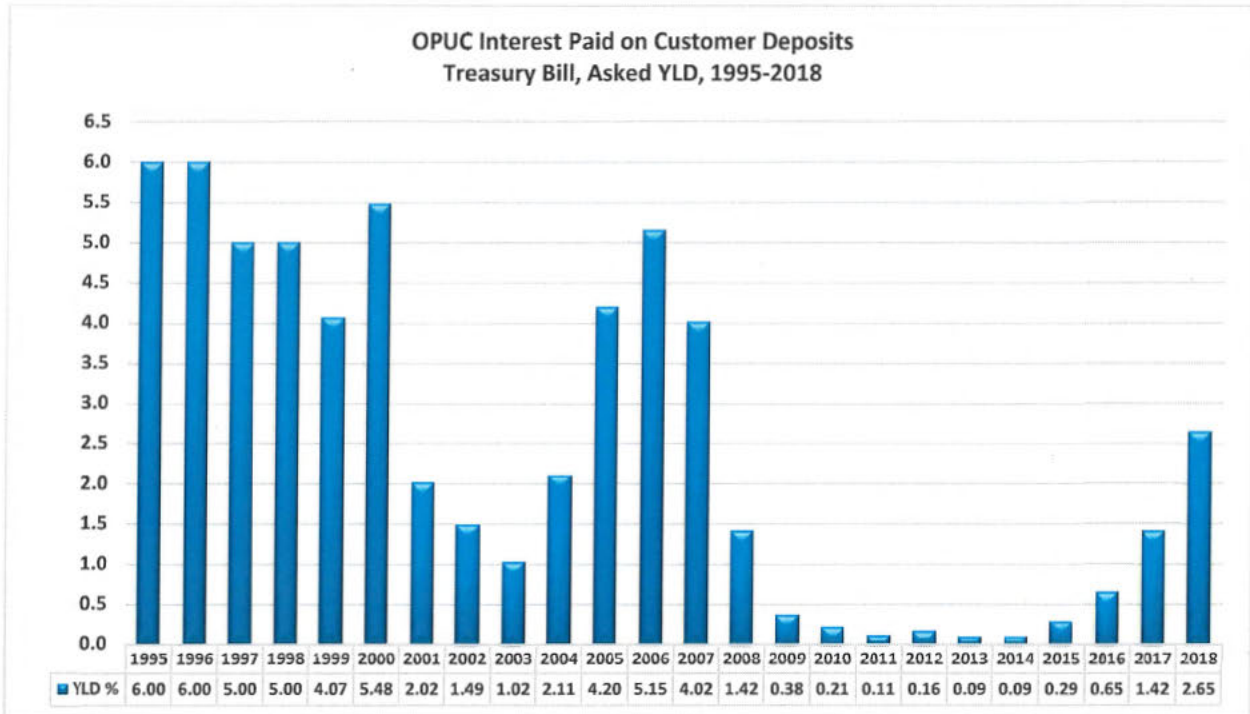
"In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 2 to 2-1/4 percent."³

Based on Staff's analysis and application of the rounding rule, Staff recommends that the Commission change the annualized minimum interest rate at which utilities must credit customers for deposits to 2.5 percent from the current 1.4 percent,⁴ effective January 1, 2019.

³ <https://www.federalreserve.gov/newsevents/pressreleases/monetary20180926a.htm>

⁴ In 2017, the Commission waived the requirement to round to the nearest half-percent.

The figure below shows the changes of the Interest Paid on Customer Deposits Rates that the Oregon PUC used from 1995 to 2018.



Conclusion

Staff concludes that a 2.0 percent late payment charge for calendar year 2019 is reasonably consistent with the practices of commercial enterprises based on the results of Staff's survey.

Staff concludes that a 2.5 percent minimum interest rate at which utilities must credit customers for deposits for calendar year 2019 is consistent with federal funds rate and monetary policy.

PROPOSED COMMISSION MOTION:

Approve a late-payment rate of 2.0 percent monthly on overdue customer accounts;

Approve an annual interest rate of 2.5 percent on customer deposits for calendar year 2019; and

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Direct affected utilities to refile their respective tariffs to reflect the new rates set forth in Staff's memorandum.

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