

ITEM NO. CA3

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: November 17, 2015**

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE January 1, 2016

DATE: November 5, 2015

TO: Public Utility Commission

FROM: Ming Peng *mp*

THROUGH: Jason Eisdorfer and Marc Hellman *JE*

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 recommends no change in the current maximum late-payment rate of 1.8 percent monthly (alternatively, an Annual Percentage Rate of 22 percent) for calendar year 2016. The late-payment rate is the percentage of a customer's past due balance utilities may charge customers having overdue accounts. Staff also recommends that the Commission specify that, beginning January 1, 2016, the annualized interest rate at which utilities must credit customers for deposits be changed to 0.3 percent from the current 0.1 percent.

**DISCUSSION**

**Applicable Law related to Late-Payment Rate**

Oregon Administrative Rules (OAR) 860-021-0126(3), 860-034-0120, 860-036-0130(1), and 860-037-0115(2) specify that the Commission will determine the late-payment rate based on a survey of prevailing market rates for late-payment charges of commercial enterprises and will advise all energy, large telecommunications, water, and wastewater utilities of the changes in the maximum 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.

### **Analysis of Late-Payment Rate**

Staff recently surveyed over 30 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, household appliances, furniture, clothing, tires, hardware, consumer electronics, toys, books, office supplies, 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, passenger rail and airline travel, and insurance companies.

Most businesses (commercial enterprises) surveyed charge a flat fee for late payments of up to \$38, in addition to a finance charge of 1.24 percent to 2.50 percent per month. 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.

Nationally, many utility companies establish a monthly percentage rate for determining late-payment fees such that the cost of not paying a utility bill is roughly equal to the cost of not paying a credit card. Staff recommends no change in the current maximum late-payment rate of 1.8 percent monthly for 2016. This rate is reasonably consistent with the practices of commercial enterprises based on the results of Staff's survey.

### **Applicable Law related to Interest Paid on Customer Deposits**

OAR 860-021-0210(1), 860-034-0160(1), 860-036-0050(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 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. The Commission will advise all energy and large telecommunications utilities of the changes in the rate to be paid on customer deposits held as needed."

### **Analysis of Interest Paid on Customer Deposits**

No new issuances of one-year T-Bills took place during the last week of October 2015. Staff used the average yields of T-bills of the closest term issued during the last week of October. On October 26, 27, 28, 29, and 30, 2015, *The Wall Street Journal* reported

that the T-bill maturing on October 13, 2016 (349 to 353 days to maturity), had asking yields averaging 0.293 percent for the week.

Staff notes that the Federal Reserve Press Release of October 28, 2015, includes the following statement through the Federal Open Market Committee (FOMC or the Committee): "The Committee continues to see the risks to the outlook for economic activity and the labor market as nearly balanced but is monitoring global economic and financial developments. Inflation is anticipated to remain near its recent low level in the near term but the Committee expects inflation to rise gradually toward 2 percent over the medium term as the labor market improves further and the transitory effects of declines in energy and import prices dissipate. The Committee continues to monitor inflation developments closely.

To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to 1/4 percent target range for the federal funds rate remains appropriate."<sup>1</sup>

To be consistent with the federal funds rate policy, Staff requests a temporary waiver of OAR 860-021-0210(1), OAR 860-034-0160(1), OAR 860-036-0050(1) and OAR 860-037-0045(1) which require, in relevant part, that the interest paid on customer deposits be rounded to the nearest one-half of one percent and this percentage is to apply to deposits held during January 1 through December 31 of the subsequent year.<sup>2</sup> Staff recommends rounding the interest rate to the nearest 0.1 percent instead of the nearest 0.5 percent when the T-Bill rate is lower than 0.5 percent, and recommends a 0.3 percent interest rate for 2016.

## **PROPOSED COMMISSION MOTION**

First, approve a late-payment rate of no greater than 1.8 percent monthly on overdue customer accounts; second, approve an annual interest rate of 0.3 percent on customer deposits for calendar year 2016; and, third, grant a waiver of OAR 860-021-210(1), OAR 860-034-0160(1), OAR 860-036-0050(1) and OAR 860-037-0045(1) to accommodate the implementation of rounding the interest rate to the nearest 0.1 percent.

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<sup>1</sup> <http://www.federalreserve.gov/newsevents/press/monetary/20151028a.htm>

<sup>2</sup> The Commission may waive each of these rules upon written request or upon its own motion pursuant to, respectively: OAR 860-021-0005, OAR 860-034-0010(1), OAR 860-036-0001(1) and OAR 860-037-0001(1).