ITEM NO. CA1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 16, 2021

REGULAR ____ CONSENT _X_ EFFECTIVE DATE _____ January 1, 2022 _____

DATE: November 8, 2021

TO: Public Utility Commission

FROM: Madison Bolton

THROUGH: Bryan Conway, Caroline Moore, and Scott Gibbens **SIGNED**

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) Approve a late-payment rate of 2.0 percent monthly on overdue customer accounts;
(2) Approve an annual interest rate of 0.1 percent on customer deposits for calendar year 2021;
(3) Grant a waiver of OAR 860-021-0210(1), OAR 860-034-0160(1), and OAR 860-037-0045(1) to accommodate the implementation of rounding the interest rate to the nearest 0.1 percent; and
(4) 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 keep the interest rate for customer deposits applicable for customer accounts in 2022 at 0.1 percent.

Applicable Rules or Laws

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. Additionally, the OARs specify that the Commission 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.

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, rate-regulated water utilities, 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.

Analysis

Analysis of Late-payment Charge on Customers' Past Due Balance
Nationally, many utility companies establish a monthly percentage rate for determining late-payment charges such that the cost of not paying a utility bill is roughly equal to the cost of not paying a credit card. However, some publicly-owned utilities (water/sewer and electricity) and insurance companies choose not to charge a late-payment fee. Generally, in either case, past due accounts are subject to cancellation of the services or policies.

The late payment rate adopted by the Commission is based on an average Annual Percentage Rate (APR) from survey results of commercial enterprise late payment charges. The rate sets forth the maximum amount any energy, large telecommunications, regulated water, and wastewater utility may assess for a late fee. Utilities may not include an additional flat fee.[1]

To collect the appropriate data for the 2021 late payment rate, Staff recently surveyed over 40 commercial enterprises believed to be reasonably representative of a range of businesses 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.

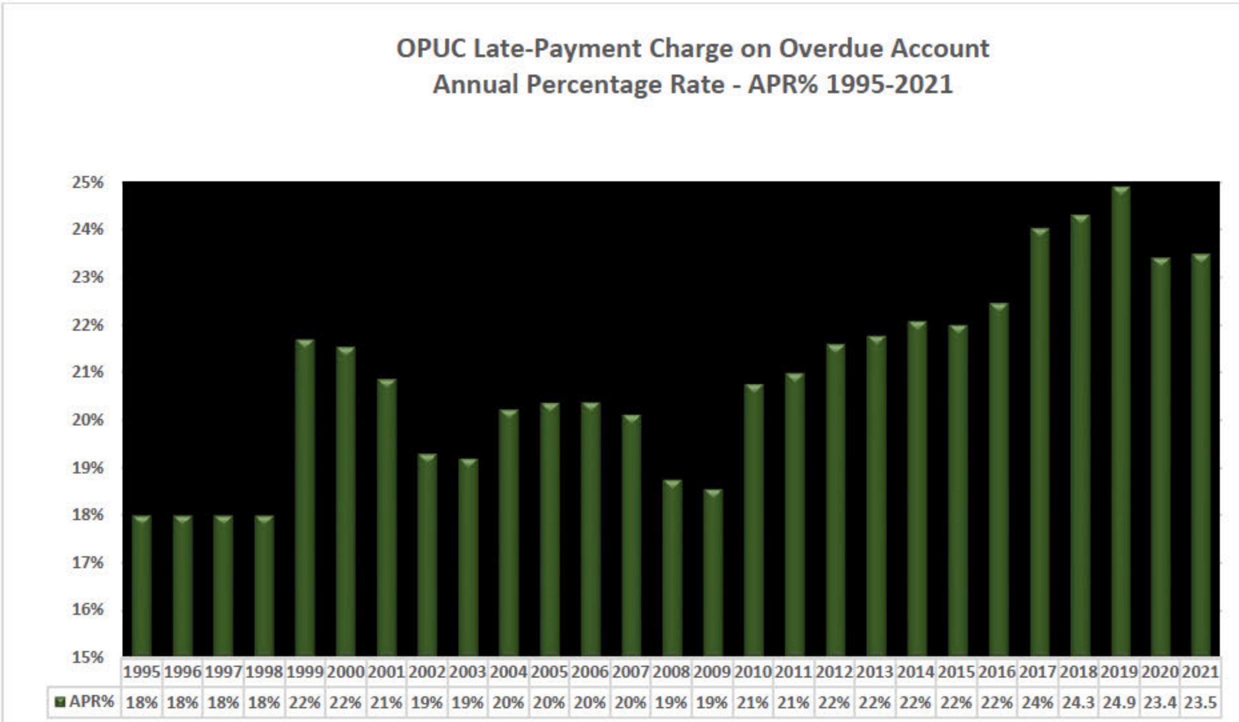
The survey indicated that a 2.0 percent monthly charge, or an average APR of 23.5 percent, is commonly applied by businesses for late payments. Staff recommends keeping the current maximum late-payment rate at 2.0 percent monthly for calendar year 2022.

The survey recorded minimal change in percent APR, from 23.4 percent in 2020 to 23.5 percent. This change does not significantly affect the percent monthly charge, as it still rounds to 2.0 percent. The late-payment rate is the percentage of a customer's past due balance utilities may charge customers with overdue accounts.

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.

The figure below shows the late-payment rates that the Commission established from 1995 to 2021.[2]

[1]Many unregulated businesses (commercial enterprises) surveyed charge a flat fee for late payments up to $40, in addition to a finance charge of 1.27 percent to 2.50 percent per month.
[2] The rates shown reflect the average APR for commercial enterprises as surveyed by Staff. The averages are shown with the year they were calculated.



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)[3] 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.[4,5]

There were no new issuances of 1-year T-bills that took place during the last week of October 2021. Staff used the average yields of T-bills of the closest term issued during the last week of October. On October 25, 26, 27, 28, and 29, 2021, *The Wall Street Journal* reported that the T-bills maturing on October 6, 2022 (342-346 days to maturity), had asking yields averaging 0.1164 percent for the week.

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[3] Treasury bills, or T-bills, are short-term debt instruments issued by the U.S Treasury and issued for a term of one year of 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.

[4] 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.

[5] OAR 860-037-0045(1)

Based on Staff's analysis, Staff recommends that the Commission keep the annualized minimum interest rate at which utilities must credit customers for deposits to 0.1 percent,[6] effective January 1, 2022.

Per the applicable rules, the interest rate used for customer deposits should round to the nearest 0.5 percent. However, if applied, the 0.1164 interest rate obtained by Staff analysis would round to 0.5 percent. Staff finds a 0.5 percent rate would not be an accurate reflection of current market conditions and instead recommends a rate of 0.1 percent at which utilities must credit customers for deposits for calendar year.

Historically, Staff has recommended 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.[7] To be consistent with the federal funds rate policy, Staff requests a temporary waiver of OAR 860-021-0210 ("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 figure below shows the changes of the Interest Paid on Customer Deposits Rates that the Oregon PUC used from 1995 to 2021.[8]

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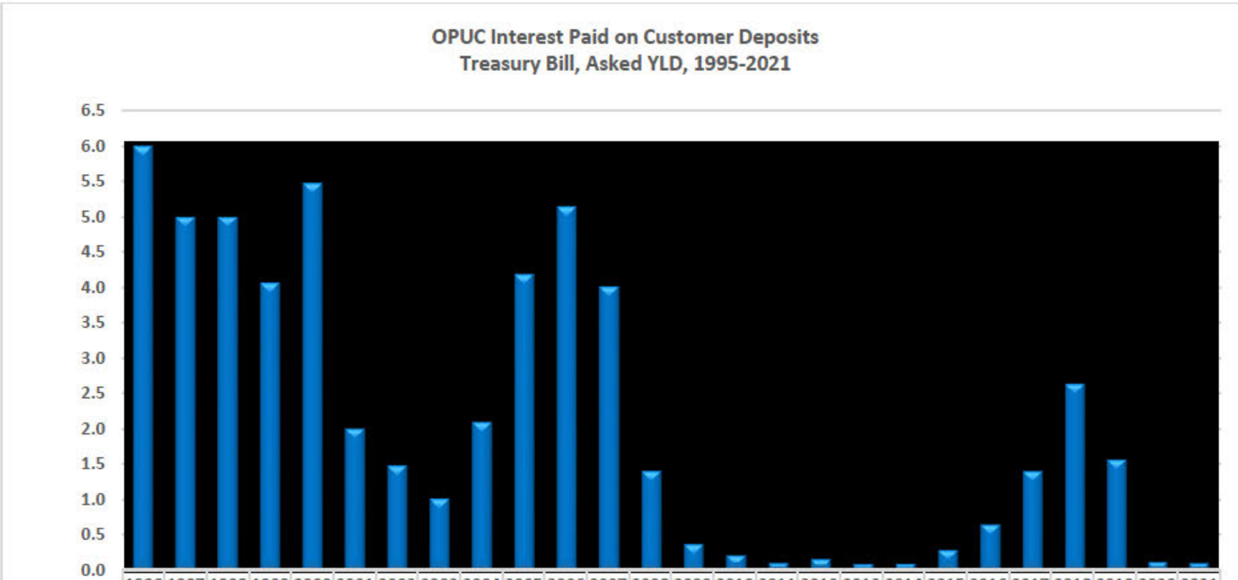
[6] In 2017, the Commission waived the requirement to round to the nearest half-percent.

[7] Staff used the same rounding method last year for interest on customer deposit rates in 2021, due to the T-Bill rate being lower than 0.5 percent.

[8] The rates shown reflect the average effective interest rate on 1-year T-Bills for the most recently available issuances in the month of October. The averages are shown with the year they were calculated.



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
YLD %	6.00	5.00	5.00	4.07	5.48	2.02	1.49	1.02	2.11	4.20	5.15	4.02	1.42	0.38	0.21	0.11	0.16	0.09	0.09	0.29	0.65	1.42	2.65	1.58	0.12	0.11

Keeping the currently effective 0.1 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. On September 22, 2021, the Federal Reserve issued FOMC reaffirmed the previously reduced federal funds rate of 0 to 1/4 percent. The FOMC has maintained this rate through the end of the year while releasing additional information on the economic outlook and long-term goals in response to the COVID-19 pandemic. The September FOMC statement[9] summarized the Committee's intent regarding the federal funds rate and inflation activity in the following excerpt:

> The Committee expects to maintain an accommodative stance of monetary policy until these outcomes[10] are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has

[9] Press Release, September 22, 2021, Federal Reserve issues FOMC statement: https://www.federalreserve.gov/newsevents/pressreleases/monetary20210922a.htm

[10] The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. Currently, inflation is elevated, largely reflecting transitory factors.

> risen to 2 percent and is on track to moderately exceed 2 percent for some time.
>
> Last December, the Committee indicated that it would continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward its maximum employment and price stability goals. Since then, the economy has made progress toward these goals. If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

COVID-19 Pandemic on Utility Customers
In Order No. 20-324, the Commission authorized Staff and the affected utilities and stakeholders to execute three stipulations incorporating the three term sheets (Energy, Water, and Telecommunications) that were developed during the Commission's investigation into the effects of the COVID-19 Pandemic on utility customers. As part of Order No. 20-324, Staff reviewed current Oregon Administrative Rules to determine where rule changes are required to meet the terms and conditions of the stipulations. For the purposes of UM 779, Staff has determined that no temporary rulemaking or waivers are necessary to remain consistent with existing OAR and Order No. 20-324.

For informational purposes only, Staff notes that in early 2020, as a response to the COVID-19 pandemic, several utilities undertook voluntary actions to suspend disconnections for non-payment and late fee assessments to assist customers impacted by COVID-19. Certain utilities had agreed to extend the suspension of disconnections, late fee charges, and related billing practices for select customer classes.

More recently, utilities have commenced disconnection processes on some unpaid accounts. Customer arrearages are high as an effect of the pandemic. However, utilities are offering multiple assistance measures that are keeping customers connected. These measures include one-time bill payments up to a specified maximum, Time Payment Arrangements that pay customers' bills for an extended timeframe, and deferred payment plans, among others[11]. More specific information on these customer assistance measures can be found in Docket No. UM 2114.

[11] Staff Report, Sept 1, 2021, Docket No. UM 2114: https://edocs.puc.state.or.us/efdocs/HAU/um2114hau84224.pdf.

Conclusion

Staff concludes that a 2.0 percent late payment charge for calendar year 2022 is reasonably consistent with the practices of commercial enterprises based on the results of Staff's survey.

Staff concludes that a 0.1 percent minimum interest rate at which utilities must credit customers for deposits for calendar year 2021 is consistent with federal funds rate and monetary policy.

PROPOSED COMMISSION MOTION:

Staff recommends the Commission:

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

2. Approve an annual interest rate of 0.1 percent on customer deposits for calendar year 2021.

3. Grant a waiver of OAR 860-021-0210(1), OAR 860-034-0160(1), and OAR 860-037-0045(1) to accommodate the implementation of rounding the interest rate to the nearest 0.1 percent; and

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