

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 22, 2016

REGULAR _____ CONSENT X EFFECTIVE DATE January 1, 2017

DATE: November 1, 2016

TO: Public Utility Commission

FROM: Ming Peng *mp*

THROUGH: Jason Eisdorfer and Marc Hellman *JH*

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 no greater than 1.9 percent monthly on overdue customer accounts;
- (2) The Commission should approve an annual interest rate of no less than 0.7 percent on customer deposits for calendar year 2017;
- (3) The Commission should 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; and
- (4) The Commission should direct the affected utilities to refile their respective tariffs to reflect the new rates.

DISCUSSION:

Issue

Whether the Commission should change the late payment rate and the interest rate for customer deposits applicable for customer accounts in 2017.

Applicable Law

Applicable Law related to Late-Payment Rate Charged to Utility Customers

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.

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."

Applicable Law related to Waiver of Select Commission Rules

Staff requests the Commission waive the requirements of certain rules as discussed later in this memorandum. Staff's request is made pursuant to the following rules: OAR 860-021-0005, 860-034-0010(1), 860-036-0001(1) and 860-037-0001(1). Each of these rules allows the Commission to waive any of the rules set forth in the respective rule Divisions upon its own motion for good cause shown.

Discussion and Analysis

Analysis of Late-payment Charge on Customer's Past Due Balance

Staff recommends changing the current late-payment rate of 1.8 percent to 1.9 percent monthly (alternatively, an Annual Percentage Rate of 22.5 percent) for calendar year 2017. The late-payment rate is the percentage of a customer's past due balance utilities may charge customers having overdue accounts. 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 1.29 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 1.9 percent monthly for 2017. This rate is reasonably consistent with the practices of commercial enterprises based on the results of Staff's survey.

Analysis of Interest Paid on Customer Deposits

Staff recommends that the Commission find that, beginning January 1, 2017, the annualized minimum interest rate at which utilities must credit customers for deposits be changed to 0.7 percent from the current 0.3 percent.

No new issuances of one-year Treasury Bills (T-Bills) took place during the last week of October 2016. Staff used the average yields of T-bills of the closest term issued during the last week of October. On October 24, 25, 26, 27, and 28, 2016, *The Wall Street Journal* reported that the T-bills maturing on October 12, 2017 (349 to 353 days to maturity), had asking yields averaging 0.651 percent for the week.

The Federal Reserve controls the three tools of monetary policy--open market operations, the discount rate, and reserve requirements. Staff notes that the Federal Reserve Press Release of October 12, 2016, for September 21, 2016's meeting, includes the following statement through the Federal Open Market Committee (FOMC or the Committee): "the Committee decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent. The Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives. The stance of monetary

policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.”¹

Rule Waiver Request

As discussed above, FOMC decided at its September 21, 2016’s meeting, to maintain the target range for the federal funds rate at one-quarter to one-half percent. To be consistent with the federal funds rate policy, Staff requests a waiver of OAR 860-021-0210(1), OAR 860-034-0160(1), OAR 860-036-0050(1) and OAR 860-037-0045(1) all of 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.

Rounding up to the nearest 0.5 percent (per the applicable rule) for the T-Bill rate of 0.651 percent would result in a percentage amount of 1.0 percent. 1.0 percent would be out of step with the federal funds rate policy and would be too high of a percentage to require as the minimum interest rate for customers’ deposits under the present financial situation.

Instead of applying the rule’s 0.5 percent rounding requirements, Staff recommends rounding the interest rate to the nearest 0.1 percent when, as in the present circumstances, the T-Bill rate is lower than 0.75 percent. Staff also recommends a 0.7 percent minimum interest rate at which utilities must credit customers for deposits for calendar year 2017.

¹ <http://www.federalreserve.gov/newsevents/press/monetary/20160921a.htm>

PROPOSED COMMISSION MOTION:

Approve a late-payment rate of no greater than 1.9 percent monthly on overdue customer accounts;

Approve an annual interest rate of no less than 0.7 percent on customer deposits for calendar year 2017;

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; and

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

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