

ITEM NO. CA6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT

PUBLIC MEETING DATE: November 21, 2017

REGULAR _____ CONSENT X EFFECTIVE DATE January 1, 2018

DATE: November 1, 2017

TO: Public Utility Commission

FROM: Ming Peng *mp.*
J

THROUGH: Jason Eisdorfer and John Crider *Jc*

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 1.4 percent on customer deposits for calendar year 2018;
- (3) The Commission should 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) 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 from 1.9 percent to 2.0 percent and change the interest rate for customer deposits applicable for customer accounts in 2018 to 1.4 percent from the 0.7 percent applicable in 2017.

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.

Applicable Rules 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), 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 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.

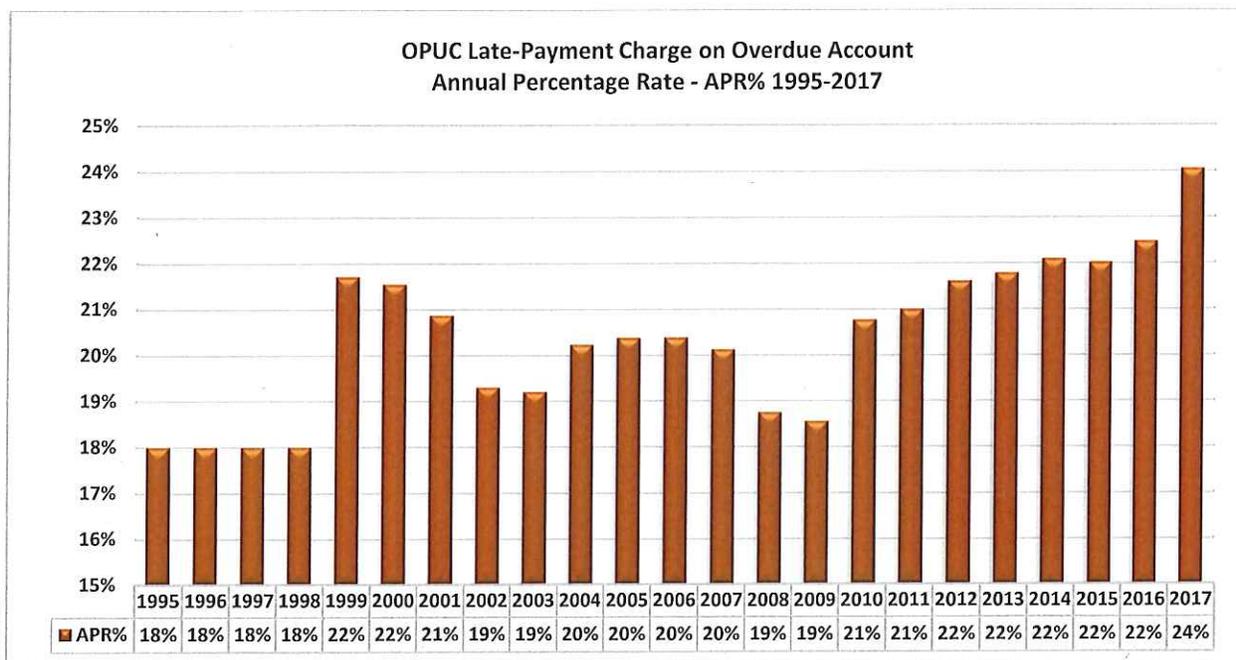
The survey included department stores, retailers of gasoline, passenger rail and airline travel, hotels, household appliances, furniture, clothing, tires, hardware, consumer electronics, toys, books, office supplies, jewelry, home improvement products and services, and other general merchandise. The survey also included providers of water and sewer services, recycling and disposal services, electricity and telecommunications services, and insurance companies.

Please note, for regulated utilities, the late-payment rate, based on average APR from survey result, will be used by the Commission for all energy, large telecommunications, regulated water, and wastewater utilities, and 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 1.35 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 2.0 percent monthly charge, an average Annual Percentage Rate (APR) of 24.0 percent, is commonly applied by businesses for late payments. Staff recommends change the current maximum late-payment rate of 1.9 percent to 2.0 percent monthly for 2018. 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 changing the current late-payment rate of 1.9 percent to 2.0 percent monthly (an APR of 24.0 percent) for calendar year 2018. 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 an upward trend of the late-payment rates that the Oregon PUC established from 1995 to 2017.



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 2017. Staff used the average yields of T-bills of the closest term issued during the last week of October. On October 25, 26, 27, 30 and 31, 2017, *The Wall Street*

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.

Journal reported that the T-bills maturing on October 11, 2018 (345-351 days to maturity), had asking yields averaging 1.415 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 on November 1, 2017, the Federal Reserve issued a Press Release for September 20, 2017's meeting, from the Federal Open Market Committee (FOMC or the Committee) that contains the following statements relating to federal funds rate and inflation:

"Gasoline prices rose in the aftermath of the hurricanes, boosting overall inflation in September; however, inflation for items other than food and energy remained soft. On a 12-month basis, both inflation measures have declined this year and are running below 2 percent."

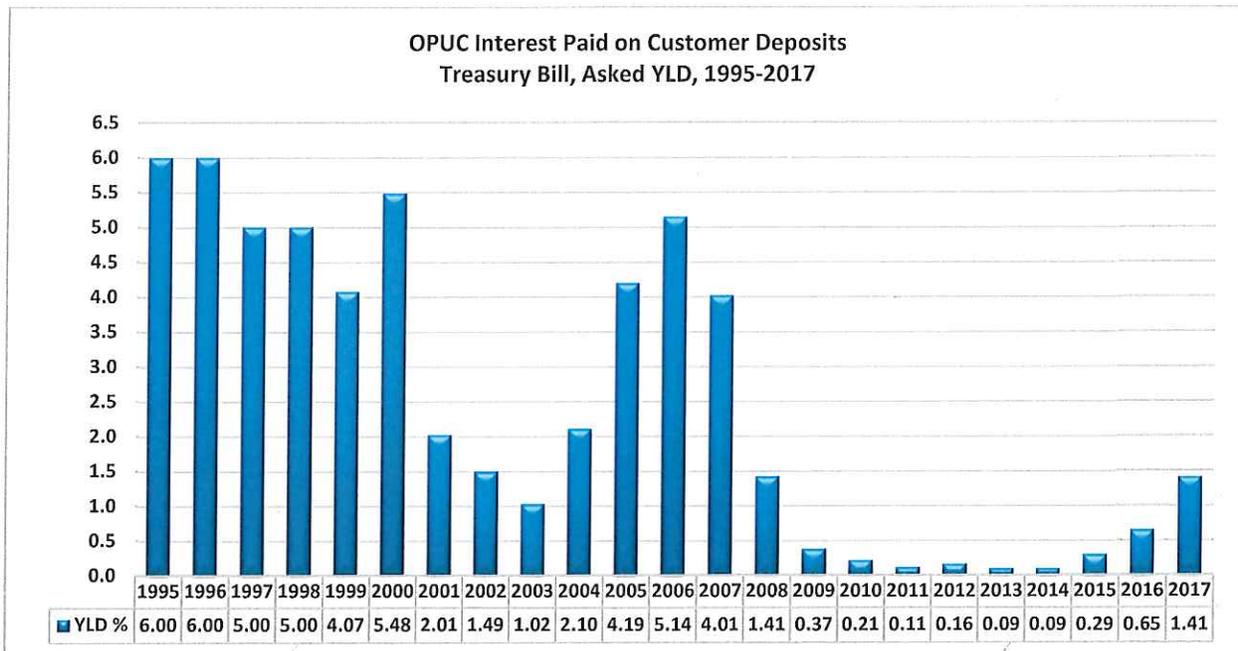
"Hurricane-related disruptions and rebuilding will continue to affect economic activity, employment, and inflation in the near term, but past experience suggests that the storms are unlikely to materially alter the course of the national economy over the medium term."

"In view of realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 1 to 1-1/4 percent. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a sustained return to 2 percent inflation."³

Staff recommends that the Commission find that, beginning January 1, 2018, the annualized minimum interest rate at which utilities must credit customers for deposits be changed to 1.4 percent from the current 0.7 percent.

³ <https://www.federalreserve.gov/newsevents/pressreleases/monetary20171101a.htm>

The figure below shows a downward trend of the Interest Paid on Customer Deposits Rates that the Oregon PUC used from 1995 to 2017.



Rule Waiver Request

Per the applicable rule, interest rate should round up to the nearest 0.5 percent. Staff considers that 0.5 percent would be out of step with the federal funds rate policy and would be either too high or too low of a percentage to require as the minimum interest rate for customers' deposits under the present financial situation.

Staff considers that a 0.1 percent rounding step will more accurately reflect T-bills yield level. Therefore, instead of applying the rules' 0.5 percent rounding requirements, Staff requests a waiver of OAR 860-021-0210(1), OAR 860-034-0160(1), and OAR 860-037-0045(1) and recommends rounding the interest rate to the nearest 0.1 percent.

Accordingly, Staff recommends a 1.4 percent minimum interest rate at which utilities must credit customers for deposits for calendar year 2018.

Conclusion

Staff concludes that a 2.0 percent late payment charge for calendar year 2018 is reasonably consistent with the practices of commercial enterprises based on the results of Staff's survey.

Staff concludes that a 1.4 percent minimum interest rate at which utilities must credit customers for deposits for calendar year 2018 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 1.4 percent on customer deposits for calendar year 2018;

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

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

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