

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT**

PUBLIC MEETING DATE: November 20, 2001

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____

DATE: November 13, 2001

TO: Phil Nyegaard through Marc Hellman and Bryan Conway

FROM: Ming Peng

SUBJECT: UM 779: Commission Determination of Late-Payment Rate and Interest
Accrued on Customer Deposits.

STAFF RECOMMENDATION:

I recommend no change in the current late-payment rate of **1.5%** monthly. The late-payment rate is the fee utilities may charge customers on overdue accounts. Staff also recommends that, beginning January 1, 2002, the annualized interest rate at which utilities must credit customers for deposits be changed to **2%** from the current 6%.

DISCUSSION:

Late-Payment Rate: (Oregon Administrative Rules) OAR 860-21-126(3) and OAR 860-34-120(2) specify that the Commission "...will determine the late-payment rate annually based on a survey of prevailing market rates for late-payment charges of commercial enterprises and will advise all utilities, by November 15, of each year what rate they may use to determine the late-payment charges on overdue customer accounts during the following calendar year."

Staff surveyed about thirty commercial accounts that reasonably represent the general range of businesses likely to be patronized by most utility consumers, such as department stores (including furniture), gasoline dealers, air travel, tire retailers, home improvement warehouses, water and sewer systems, recycling and disposal firms, electricity and telephone companies as well as insurance companies. The survey indicated that an average monthly rate of 1.5% is applied by a few businesses for late payments. Most businesses, however, charge a flat fee for late-payments (for example, \$20 to \$29) in addition to a finance charge of 1.5 to 2.0% per month. Some publicly owned utilities (water/sewer and electricity) and insurance companies do not charge for late-payment. Past due accounts are subject to cancellation of the services or policies.

In addition, this year's survey shows that the late-payment flat charge increased from last year's \$20-25 to this year's \$25-29, and average monthly finance charge decreased from last year's 1.81% to 1.74%, therefore, Staff recommends no change on the current 1.5% monthly charge for late utility payments. It is reasonably consistent with the practices of commercial enterprises. An alternative late-payment charge for Commission consideration is to apply an additional \$20 flat fee along with the 1.5 – 2.0% monthly finance charge. This alternative appears to be a common practice by businesses, however, Staff does not advocate this alternative because it could represent a significant penalty when the balance due is small.

Interest Paid on Customer Deposits: OAR 860-21-210(1) and OAR 860-34-160(1) state that “[u]nless otherwise specified by the Commission, customer deposits shall accrue interest at a rate based upon the effective interest rates for new issues of one-year Treasury bills issued during the last week of October.” It further directs the Commission to advise all utilities by November 15 of each year what rate will be paid on customer deposits during the following calendar year.

No new issues of 52-week Treasury bills were issued during the last week of October 2001. Therefore, Staff used the yields of Treasury bills listed during the last week of October. From October 25 to 31, 2001, the Wall Street Journal reported that the Treasury bill maturing on May 2, 2002 (180-184 days to maturity) had asking yields that had an average of 2.02%. As specified in the administrative rules, the rate is rounded to 2%.

PROPOSED COMMISSION MOTION:

Staff's recommendation to approve a late-payment rate of **1.5%** monthly on overdue customer accounts and an annual interest rate of **2%** on customer deposits for the calendar year 2002 be adopted.