

ITEM NO. CA6

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 20, 2007**

REGULAR _____ CONSENT X EFFECTIVE DATE January 1, 2008

DATE: November 1, 2007

TO: Public Utility Commission

FROM: Ming Peng

THROUGH: Lee Sparling, Marc Hellman, and Bryan Conway

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 charge of 1.7% monthly (20.1% Annual Percentage Rate). The late-payment rate is the fee utilities may charge customers on overdue accounts. Staff also recommends that, beginning January 1, 2008, the annualized interest rate at which utilities must credit customers for deposits be changed to 4%, from the current 5%.

DISCUSSION:

Late-Payment Rate: Oregon Administrative Rules (OAR) 860-21-0126(3), 860-34-0120(2), and 860-036-0130(1) 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 utilities of the changes in the rate they may use to determine late-payment charges on overdue customer accounts as needed. The current late-payment rate and the conditions for its application to customer accounts shall be specified on the utility bill."

Staff surveyed 30 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 dealer, air travel, tire retailer, home improvement warehouse, hardware store, water and sewer systems, recycling and disposal firms, electricity, and telephone companies as well as insurance companies.

The survey indicated that a maximum monthly rate of 1.7% is applied by a few businesses for late payments. Most businesses (commercial enterprises), however, charge a flat fee for late payments (for example, \$10 up to \$39) in addition to a finance charge of 1.4% to 2.1% 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.

Across the country, many utility companies set the late-payment fees at a certain percentage point per month to ensure 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 charge of 1.7% monthly. It is reasonably consistent with the practices of commercial enterprises.

Interest Paid on Customer Deposits: OAR 860-21-0210(1), 860-34-0160(1), and 860-036-0050(1) state 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."

No new issues of 52-week Treasury bills were issued during the last week of October 2007. Staff used the average yields of Treasury bills of the closest term issued during the last week of October. From October 25 to 31, 2007, the Wall Street Journal reported that the Treasury bill maturing on May 1, 2008, (177-183 days to maturity) had asking yields that had an average of 4.018%. As specified in the administrative rules, the annual interest rate is rounded to 4.0%.

PROPOSED COMMISSION MOTION:

Staff's recommendation to continue the current maximum late-payment rate of 1.7% monthly on overdue customer accounts, and change the annual interest rate to 4.0% on customer deposits for the calendar year 2008, be adopted.