

ITEM NO. CA9

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: November 25, 2008**

REGULAR \_\_\_\_\_ CONSENT  X  EFFECTIVE DATE  January 1, 2009

**DATE:** November 10, 2008

**TO:** Public Utility Commission

**FROM:** Ming Peng

**THROUGH:** Lee Sparling, Marc Hellman, and Steve Storm

**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 changing the current late-payment rate of 1.7% to 1.5% monthly, which is equivalent to an Annual Percentage Rate (APR) of 18.0%. The late-payment rate is the percentage of a customer's past due balance utilities may charge customers having overdue accounts. Staff also recommends that, beginning January 1, 2009, the annualized interest rate at which utilities must credit customers for deposits be changed to 1.5%, from the current 4%.

**DISCUSSION:**

**Late-Payment Rate:** Oregon Administrative Rules (OAR) 860-021-0126(3), 860-034-0120(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 over 30 commercial enterprises believed to reasonably represent the range of businesses likely to be patronized by utility customers. The survey included department stores; retailers of gasoline, household furnishings, furniture, clothing, tires, hardware, consumer electronics, toys, books, office supplies, home improvement

products and services; providers of passenger rail and airline travel, and lodging; and mass merchandisers of groceries and general merchandise. The survey also included providers of water and sewer services, recycling and disposal services, electricity and telecommunications services and insurance companies.

All but six of the businesses surveyed charge a flat fee for late payments<sup>1</sup> plus an amount based on a percentage rate applied to the past due balance. This rate ranged from 1.1% to 1.9% per month for the surveyed firms. Insurance companies and some utilities do not charge a late-payment fee. Past due accounts with these firms are subject to policy or service cancellation.

Many utility companies in other jurisdictions 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 changing the current 1.7% monthly percentage rate applied to late utility payments to 1.5%. It is reasonably consistent with the practices of commercial enterprises based on the results of Staff's recently concluded survey.

**Interest Paid on Customer Deposits:** OAR 860-021-0210(1), 860-034-0160(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 52-week Treasury bills were issued during the last week of October 2008. Staff used the average yields of Treasury bills of the closest term issued during the last week of October. From October 27th to the 31st, 2008, *The Wall Street Journal* reported that the Treasury bill maturing on October 22, 2009, (355-359 days to maturity) had asking yields averaging 1.4178%. As specified in the previously cited administrative rules, this annual interest rate is rounded to the nearest one-half of one percent (to 1.5%) for establishing the annualized interest rate to be applied to customer deposits.

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<sup>1</sup> "Flat fee" late payment charges ranged from \$10 to \$39 for the businesses surveyed. Note that most of these businesses have established tiered flat fees, where a lower "flat fee" is charged for past due amounts up to a specified amount, after which a higher "flat fee" is charged. Many of the businesses surveyed had three or four levels of "flat fees."

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**PROPOSED COMMISSION MOTION:**

Staff's recommendation to set the late-payment rate to a 1.5% monthly maximum on overdue customer accounts, and the annual interest rate to 1.5% on customer deposits, for the calendar year 2009, be adopted.