M E M O R A N D U M

April 19, 1999

TO: ALL COMMISSIONERS

FROM: DIVISION OF LEGAL SERVICES (JAYE) RVE
DIVISION OF ELECTRIC AND GAS (E. DRAPER) RLT
DIVISION OF RESEARCH AND REGULATORY REVIEW (MCNULTY) WBM

RE: DOCKET NO.990179-EI -- COMPLAINT OF GLEN WEBB AGAINST FLORIDA POWER & LIGHT COMPANY CONCERNING TARIFF SHEET 4.020, WHICH ALLOWS A LATE PAYMENT FEE TO BE ASSESSED ON PAST-DUE ELECTRIC BILLS.

INFORMATION PERTINENT TO ITEM EIGHT, APRIL 20, 1999, AGENDA CONFERENCE

Attached is a copy of an e-mail response provided today by Bill McNulty of Research and Regulatory Review to Melinda Butler in response to questions on the above-referenced docket. This information may prove helpful to you as you prepare this item. Thank you.

GAJ/js
Attachment
cc: Division of Electric and Gas
Division of Research and Regulatory Review
I:\memo3.gaj

From: Bill McNulty
To: Melinda Butler
Subject: Late Payment Charge, FPL

===NOTE===
CC: Dan Hoppe, Elisabeth Draper, Patti Daniel, Tim Devlin

Elizabeth Draper sent me an e-mail today stating that Commissioner Jacobs had 2 questions in regards to FPL's late payment charge of 1.5 percent per month (18 percent per year)

1. If the 18% late payment charge should be lowered, to what should it be lowered to (12%, 10%, ..??)

2. Could you have a variable late payment charge, which changes quarterly e.g.,..??

To answer these questions requires some background of how LPCs were adopted. The approval of an LPC for FPL followed the trail blazed by SBC in 1987. Attachment D of the Staff Recommendation in Docket 870456 is an article published in "Telephony" (Feb. 1987) which is a summary of the adoption of LPCs by utilities in the 50 states. This article states that, of those states in which utilities have adopted a LPC (60% of all states), most use a standard of 1.5 percent of the past due balance as the standard charge. Where LPCs were authorized, the focus seemed to be upon promoting prompt payment and defraying additional collection costs. If an average residential utility bill is $100, then a late fee would be $1.50 at the 1.5% rate, which may actually be cost-based (bill expense, administration, cost of money). SBC said their monthly costs were 2.3% back in 1987. It seems some utilities were experimenting with options other than flat percentage rates, including one utility that charged a flat rate to cover the administrative costs plus a finance charge, set at the cost of capital, to cover the money cost (Anchorage Utilities).

Specific to electric utilities, per "Utility Regulatory Policy in the US and Canada - 1995-96", as of 1996;
- 7 states allowed LPCs higher than 1.5%, the highest being 6% (Missouri),
- 13 states had a 1.5% LPC,
- 4 states required LPCs to not exceed 1.5%,
- 7 states had 1% LPCs,
- 2 states prohibited LPCs,
- 12 states had no uniform policy, and
- 5 other states responses varied from "varies" to "do not regulate electric utilities".

In a related area, in 1994 the FPSC considered the appropriate interest rate that should be paid on customer deposits. Among the options considered was a variable interest rate. Ultimately, during a workshop, all parties agreed that a fixed interest rate would be better since it avoids customer confusion and for ease of administration. That was Docket 930385-PU, revision of rule on customer deposits.

FPSC rules are silent in regards to allowable LPCs for electric utilities.

Thus, to answer the 2 questions stated above:

1. To know this would perhaps require investigating the costs of collecting the delinquent bills and factoring in, as well, the company's cost of capital. The companies could determine their annual costs of late collections, cost of capital could be considered, and a average rate per late bill could be determined.

2. A variable late payment charge could be assessed, but the burden of calculating and administering this on a periodic basis may cost more than it is worth (the cost of this activity may make the charge higher than it would otherwise have to be).

Many of the issues surrounding LPCs involve collection expenses and the cost of money. AFAD is probably equipped to best answer these kinds of questions.

Please let me know if RRR can be of further assistance in addressing this concern of the commissioner. Thank you!