PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Resolution ALJ-294
Administrative Law Judge Division
September 5, 2013

RESOLUTION

RESOLUTION ALJ-294 Adopting guidelines for computing interest on approved intervenor compensation claims pursuant to Pub. Util. Code § 1801, et seq.

Summary

This resolution adopts guidelines to be followed by utilities when computing interest on approved intervenor compensation claims pursuant to Pub. Util. Code § 1801, et seq. This resolution is adopted to ensure that all payers of compensation awards compute interest in a consistent manner.

Background

Public Utilities Code Section 1804(e) requires the Commission, within 75 days after the filing of a request for compensation or within 50 days after the filing of an audit report, whichever occurs later, to issue a decision determining whether or not the customer has made a substantial contribution to the final order or decision in the hearing or proceeding. If the Commission finds that the customer requesting compensation has made a substantial contribution, the commission must describe the substantial contribution and determine the amount of compensation to be paid.

When the Commission does not issue a decision within 75 days after the filing of a request for compensation pursuant to § 1804(e), the Commission requires the payment of awards to include interest, beginning the 75th day after the filing of a claimant's request and continuing until full payment is made.[1] The Commission has determined that interest should accrue at the rate earned on prime, 90-day commercial paper as reported in Federal Reserve Statistical Release H.15.[2]

[1] *See* Decision 98-04-059.

[2] http://www.federalreserve.gov/releases/H15/data.htm.

The State Auditor recently audited the Intervenor Compensation Program and issued its report on July 23, 2013.[3] The report states, among other things, that the Commission has not issued guidance to staff or utilities on how to calculate interest appropriately for intervenor claim decisions issued after the 75-day deadline, resulting in a flawed methodology and overpayments of interest accrued on late awards the Commission paid. The report further states that, because the Commission has not issued guidance, there is a risk that some utilities may have used incorrect methods of calculating interest.

Discussion

The Commission recently surveyed the methods that utilities use to compute interest on intervenor compensation awards. Although all utilities use the 90-day commercial paper as reported in Federal Reserve Statistical Release H.15, they use differing methods to compute the interest accruing on compensation awards.

In particular:

- Some utilities use the "non-financial" rate while others use the slightly higher "financial" 90-day commercial paper rate.
- Some utilities apply simple interest while others apply compound interest.
- During the period of time in which interest is accrued,[4] some utilities apply the 90-day commercial paper rate on the date the interest on a claim is calculated, while others apply the interest in effect for each respective month that accrues interest on an award.

The different methods result in different amounts of interest paid on awards of the same amount for the same period of time. To ensure that interest on compensation awards is computed consistently, utilities must:

- Use the "non-financial" 90-day commercial paper rate (Frequency = "monthly");[5]
- Compute compound interest monthly; and

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[3] The audit report is available at: http://www.bsa.ca.gov/reports/summary/2012-118.

[4] The post-75th-day period.

[5] See Attachment 1.

- Use the 90-day commercial paper rate for a particular month to compute interest for the same month (i.e., the 90-day rate for January 2013 should be used to calculate interest for January 2013, etc.).

Attachment 2 presents an example of how interest should be calculated. The Commission will use this procedure when calculating interest on compensation awards paid from the Intervenor Compensation Fund. Utilities are not required to use the precise format or procedure displayed in the example but must ensure their interest calculations comply with the above guidelines.

Comments

Public Utilities Code Section 311(g)(1) requires that a draft resolution be served on all parties, and be subject to a public review and comment period of 30 days or more, prior to a vote of the Commission on the resolution. A draft of today's resolution was distributed for comment to the affected utilities and other interested parties. Comments were filed by Aglet Consumer Alliance on August 22, 2013, and by The Utility Reform Network on August 26, 2013. No reply comments were filed. The comments have been considered and appropriate changes have been made to this resolution.

IT IS RESOLVED, all utilities must compute interest to be paid on approved intervenor compensation claims as described in this resolution.

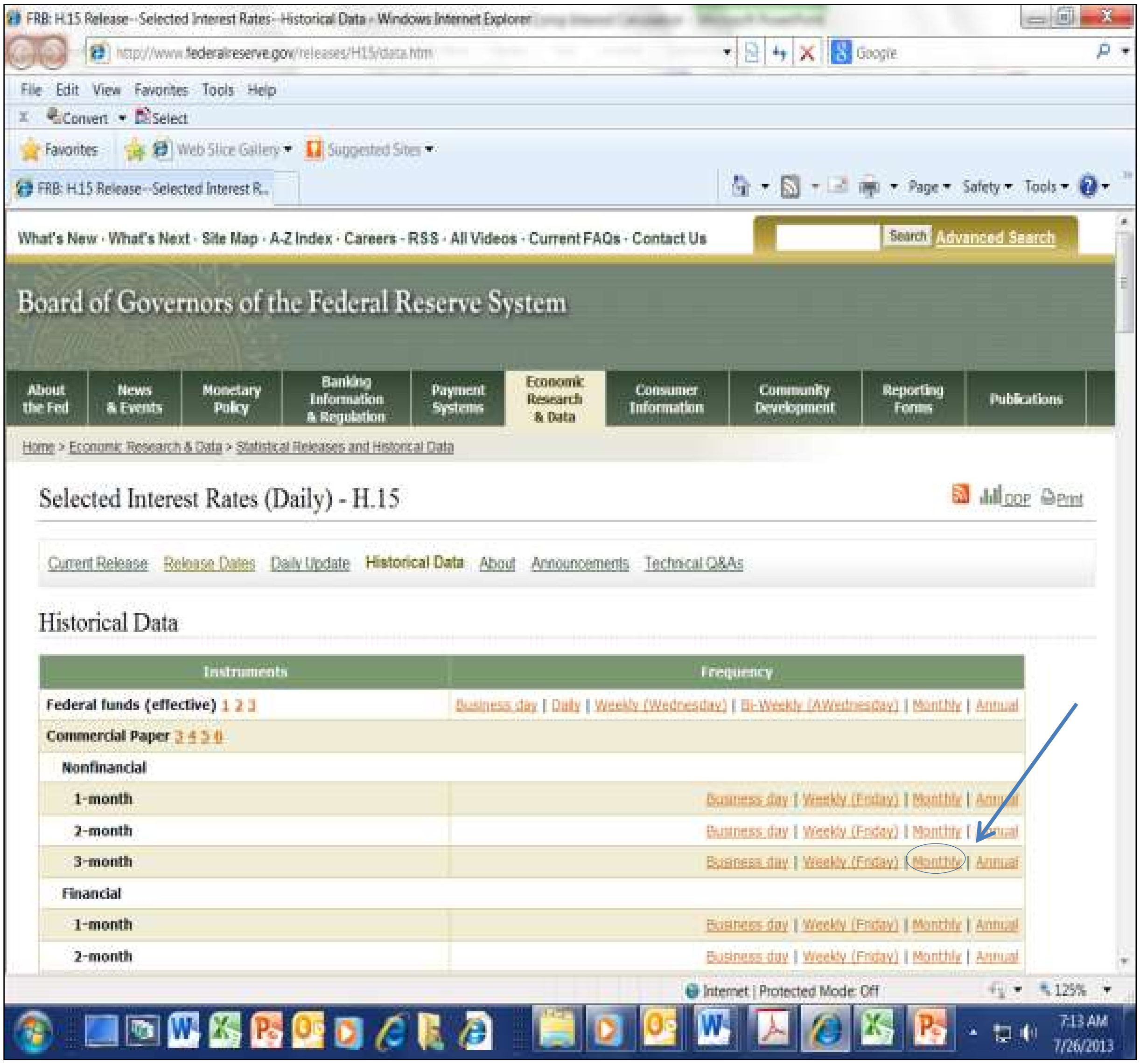
This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on _______________, the following Commissioners voting favorably thereon:

____

PAUL CLANON
Executive Director

ATTACHMENT 1



(END OF ATTACHMENT 1)

ATTACHMENT 2

Example of Calculation of Interest on Intervenor Compensation Award
Interest Start Date (i.e., the 75th day after the filing of a claimant's request): 1/3/13
Payment Date: 6/7/13

Month/Yr.	Balance	Interest Rate[1]	Days[2]	Interest Accrued[3]	End of Month Balance[4] (Rounded)
	(a)	(b)	(c)	(d)=(a)*(b)/365)*(c)	(e)=(a)+(d)
Jan 2013	$100,000.00	0.20%	29	$15.89	$100,015.89
Feb 2013	$100,015.89	0.16%	28	$12.28	$100,028.17
Mar 2013	$100,028.17	0.17%	31	$14.44	$100,042.61
Apr 2013	$100,042.61	0.15%	30	$12.33	$100,054.94
May 2013	$100,054.94	0.12%	31	$10.20	$100,065.14
June 2013	$100,065.14	0.12%	7	$ 2.30	$100,067.44
Total Interest				$67.44	
Total Compensation Award:					**$100,067.44**

[1] The applicable interest rate is the "Commercial Paper/Non-financial/3-month" interest rate reported by the Federal Reserve (See Attachment 1). This information is available at: http://www.federalreserve.gov/releases/H15/default.htm.

[2] Number of days in month accruing interest (i.e., January 3 through January 31 = 29 days).

[3] The interest rate (Column (b)) for the appropriate month should be converted to a daily interest rate (i.e., divide the interest rate (Column (b)) by "365" days). The daily interest rate should be multiplied by the number of days in the month accruing interest (Column (c)). The result should be multiplied by the "Balance" (Column (a)).

[4] Amount in Column (e) equals Column (a) in following month.

(END OF ATTACHMENT 2)