

BEFORE THE  
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE ANNUAL )  
DETERMINATION OF THE 2014 INTEREST ) DOCKET NO. 13-107-U  
RATE APPLICABLE TO UTILITY )  
CUSTOMER DEPOSITS )

INITIAL TESTIMONY  
OF  
MARCO OSORIO  
ANALYST  
FINANCIAL ANALYSIS SECTION

ON BEHALF OF THE GENERAL STAFF  
OF THE ARKANSAS PUBLIC SERVICE COMMISSION

NOVEMBER 1, 2013

1

## QUALIFICATIONS

2 **Q. Please state your name and business address.**

3 A. My name is Marco Osorio. My business address is Arkansas Public Service  
4 Commission (Commission or APSC), 1000 Center Street, Little Rock, Arkansas  
5 72201.

6 **Q. Please describe your present position with the Arkansas Public Service  
7 Commission General Staff (Staff).**

8 A. I am employed by Staff as an Analyst in the Financial Analysis Section. In that  
9 capacity, I assist others in the Financial Analysis Section in various aspects of  
10 cost of capital, capital recovery, and other financial and economic analyses,  
11 including the determination of the overall required rate of return and  
12 comprehensive depreciation studies for jurisdictional utilities.

13 **Q. Please describe your educational qualifications.**

14 A. I graduated from Harding University in May 2012 with a Bachelor of Business  
15 Administration degree with a major in Finance. Since joining Staff, I have  
16 attended several regulatory training seminars, including the Mid-America  
17 Regulatory Conference in June 2013 and the "The Basics" Practical Regulatory  
18 Training held by New Mexico State University in October 2013. I have also  
19 attended the annual Financial Forum sponsored by the Society of Utility and  
20 Regulatory Financial Analysts, of which I am a member.

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## PURPOSE

22 **Q. What is the purpose of your testimony?**

23 A. I make a recommendation regarding the appropriate 2014 customer deposit

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1 interest rate, as directed by Order No. 1 in this docket. This rate will apply to all  
2 jurisdictional utility companies operating in Arkansas and subject to the  
3 Commission's authority.

4 **Q. Are you recommending a change in the 0.5% rate that this Commission last**  
5 **authorized?**

6 A. Yes. I am recommending a customer deposit interest rate of 0.4% to be effective  
7 for calendar year 2014.

8 **METHODOLOGY**

9 **Q. What factors, including the appropriate statute, did you consider in arriving**  
10 **at your recommendation?**

11 A. Ark. Code Ann. § 23-4-206 (2002 Replacement) requires the Commission to  
12 determine annually the interest rate to be paid on customer deposits for utility  
13 service. The new interest rate is to become effective January 1 of the following  
14 year and shall remain in effect for that calendar year. This statute further  
15 provides that interest paid on any deposit should be computed using simple  
16 interest and the annual rate of interest set by the Commission for any year shall  
17 not be more than ten percent (10%).

18 In accordance with Rule 4.01 of the Commission's *General Service Rules*,  
19 a utility customer can be required to deposit funds with the utility for the privilege  
20 of obtaining service. While the utility company has the discretion to request this  
21 deposit, the utility customer does not have the option of whether or not to comply,  
22 which makes the customer a forced investor. Given these conditions, the utility  
23 customer is not free to (1) decide whether or not to make the investment

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1 (deposit) in the utility or (2) select an alternative investment opportunity that  
2 might produce a higher rate of return. Therefore, the utility customer should be  
3 allowed a return on investment that would correspond to the return from a  
4 comparable investment.

5 **Q. What characteristics of customer deposits did you consider relevant for**  
6 **identifying a comparable investment?**

7 A. First, I evaluated customer deposits from the perspective of an investment  
8 instrument available to the general public. Rule 4.06 of the Commission's  
9 *General Service Rules* requires a utility to promptly refund a residential customer  
10 deposit if the customer has paid all bills by the due date for the last 12 months. A  
11 customer can be assured of principal repayment if the customer meets the  
12 requirements of the Rule. Thus, the principal amount of the deposit has a  
13 minimal to non-existent default risk characteristic. Accordingly, a comparable  
14 investment instrument would be one with little default risk.

15 Another relevant characteristic of the deposit is its maturity, the length of  
16 time the utility has use of the funds before refunds are made to the customer.  
17 Therefore, consistent with the Rule, a comparable investment instrument should  
18 have a term of at least one year.

19 **Q. Given these considerations, which investment instrument would best serve**  
20 **as a reasonable proxy for estimating the appropriate return on utility**  
21 **customer deposits?**

22 A. Considering principal risk, maturity, and the investment alternatives available to  
23 Arkansas ratepayers, utility customer deposits are most comparable to bank

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1 certificates of deposit. Accordingly, I selected a certificate of deposit with a  
2 principal amount of \$500 and a maturity of one-year to serve as a proxy for  
3 customer deposits.

4 **Q. Has the Commission previously accepted this approach to determine the**  
5 **annual customer deposit interest rate?**

6 A. Yes. The Commission has accepted this methodology since 1985 when it first  
7 began establishing customer deposit interest rates.

8 **Q. Did you conduct a survey of financial institutions in Arkansas concerning**  
9 **the interest rate currently offered on a \$500, one-year certificate of deposit?**

10 A. Yes. On October 25, 2013, I conducted a telephone survey of financial  
11 institutions located throughout Arkansas seeking those offering certificates of  
12 deposit with a term of one-year and a minimum deposit amount of \$500. I  
13 eliminated institutions whose certificate of deposit terms did not meet the criteria  
14 mentioned previously. Initial Exhibit MO-1 presents, by institution, the one-year  
15 certificate of deposit interest rates rounded to one decimal place from my  
16 remaining sample results. The mean interest rate currently offered by the  
17 remaining financial institutions is 0.4%.

18 **Q. What is your recommendation to this Commission regarding the customer**  
19 **deposit interest rate to be paid by utility companies beginning January 1,**  
20 **2014 and ending December 31, 2014?**

21 A. I recommend the Commission require all jurisdictional utilities to pay simple  
22 interest at a rate of 0.4%.

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1 **Q. Does this conclude your testimony at this time?**

2 A. Yes.

### **\$500 One-Year Certificate of Deposit Interest Rates**

<b>Financial Institution</b>	<b>Location</b>	<b>Rate*</b>
Centennial Bank	Conway	0.2%
Metropolitan National Bank	Little Rock	0.4%
First Arkansas Bank and Trust	Jacksonville	0.3%
Eagle Bank and Trust Company	Little Rock	0.4%
Liberty Bank of Arkansas	Jonesboro	0.4%
Farmers Bank and Trust Company	Blytheville	0.5%
Fidelity National Bank	West Memphis	0.6%
Simmons First Bank of Northeast Arkansas	Jonesboro	0.4%
Summit Bank	Arkadelphia	0.3%
Southern Bancorp Bank	Arkadelphia	0.4%
The Malvern National Bank	Malvern	0.4%
The Union Bank of Mena	Mena	0.2%
First Security	Searcy	0.4%
First Community Bank	Batesville	0.3%
The Citizens Bank	Batesville	0.3%
Community First Bank	Harrison	0.3%
Citizens' Bank & Trust Co.	Van Buren	0.3%
First State Bank of De Queen	De Queen	0.8%
Benefit Bank	Fort Smith	0.4%
Simmons First Bank of Russellville	Russellville	0.3%
Simmons First National Bank	Pine Bluff	0.3%
Farmers Bank & Trust Company	Magnolia	0.5%
First Financial Bank	El Dorado	1.0%
Delta Trust & Bank	Parkdale	0.4%
Mean		0.4%

Source:

Rates compiled from a telephone survey of financial institutions conducted on October 25, 2013.

\* Rounded to the nearest tenth of a percent

CERTIFICATE OF SERVICE

I, Justin A. Hinton, hereby certify that a copy of the foregoing Response has been served on all parties of record by forwarding the same by email or first class mail, or both, postage prepaid, this 1<sup>st</sup> day of November, 2013.

/s/ Justin A. Hinton

Justin A. Hinton