ORDER NO 4/2011

PUBLIC UTILITIES COMMISSION

In the matter of an Application by Guyana Power and Light Inc. (GPL) for a Reduction of the Interest Rate payable on Customer's Security Deposit

CORAM:

Justice Prem Persaud, CCH	–	Chairman
Mr. Badrie Persaud	-	Member
Mr. John C. Caesar	-	Member
Mr. Vidiahar Persaud	-	Secretary/Legal Officer
Mr. Moorsalene Sankar	-	Financial Analyst I
Mr. Orin Edghill	-	Accountant
Ms. Avita Singh	-	Financial Analyst II

APPEARANCES

Guyana Power and Light Inc.

Bharat Dindial	-	Chief Executive Officer (CEO)

Consumers

Pat Dial	-	President, Guyana Consumers Association
George Seals	-	President, Consumers Movement of Guyana
Hazel Austin	-	Consumers Movement of Guyana

DECISION

GPL's Application - Background:

1. On August 19th, 2011 GPL applied to the Commission for a reduction in interest rate on customer security deposits from 7% to 1.6%.

2. Section 4.9 of GPL's Standard Terms and Conditions for Electric Services states, "…In accordance with the Company's Licence, interest shall accrue at a rate of 7% (or such other rate as agreed by the Company and approved by the PUC), compounded annually, on the security deposit paid by a Customer to the Company from the date the deposit is received…".

3. In its application GPL stated that the interest rate of 7% per annum on consumer deposit interest was set in late 1999. At that time GPL claimed that the average annual term deposit rate payable by the leading commercial banks was 10.26%.

4. GPL's rationale in arriving at the suggested rate of 1.6% per annum on consumer deposit is premised on the assumption that since the original consumer deposit interest rate was set at a discount of 32% on the then existing term deposit rate, the same basis and discount rate, should prevail and apply to the current term deposit interest rate.

5. The Commission held a public hearing on September 21st, 2011 to discuss the views of the various stakeholders on GPL's proposal.

6. It was suggested that the main benefit of the consumers' deposits accruing to GPL is that it provides GPL with substantial and free working capital.

7. It was observed that the power company may be concerned about the quantum of the accumulated liability that accrues annually to its account. At the end of June 2011 customer deposits held in the accounts of GPL stood at $1.369 billion. At the current interest rate of 7% per annum GPL will be accruing and paying an annual interest cost of approximately $95 million to consumers. If the suggested rate of 1.6% per annum is used, GPL will be accruing an interest provision of approximately $22 million. This would result in an immediate reduction of approximately $73 million on interest charges.

8. GPL argued that even though consumer deposits are used as working capital in the company's operations , it is "on call" every month and not lifelong deposits. The consumers' deposit is also used to secure credit to customers for service provided. Hence, since these services come at a cost, using the borrowing rate as a basis for setting interest rates should not be considered.

9. Prior to the amendment of GPL's License on October 4th, 2010 interest on customer's account was accrued for but seldom paid. The consumer's deposit and interest accrued thereon is only refunded when a customer's service is given up. The amendment of GPL's License obligates GPL to credit the customer's account with the accrued interest annually. The amendment also significantly increases the security deposits for post paid services customers. (Prepaid services customers are not required to pay security deposit).

10. GPL noted that the interest on consumer deposits is an expense to the company and like any other expense GPL is entitled to recover same by adjustments to its tariffs. In the final analysis, therefore, it will be the consumers who will ultimately be paying the cost on consumer's deposit interest.

11. The Guyana Consumers Association (GCA) expressed their disapproval of the methodology used by GPL to arrive at the proposed 1.6% rate of interest at the public hearing. GCA believes that GPL's criteria is subjective and that it is necessary for the PUC and all stakeholders to agree on a principled criteria to arrive at a rate for GPL's consumer deposits and that until such an agreed criteria is arrived at, the rate of 7% on consumer deposits should be maintained. GCA also stated that in arriving at rates for consumers' deposits the lending/overdraft rate which is 12% to 14% as at end June 2011 should be considered because GPL uses the security deposits as working capital. The GCA stated in its letter dated September 14th, 2011 and at the hearing that consumer deposits cannot be equated to bank deposits, as consumer deposits are lifelong in nature and GPL is rarely called upon to refund these deposits.

12. Customer deposits are not held in any defined or interest bearing account. It is used by the company as working capital. If GPL had to borrow this equivalent from a financial institution to provide for its working capital it would have been incurring significant borrowing cost. Interest rates currently vary between 10%-14% annually. Based on the current rates it was suggested that an equitable interest rate for GPL's consumer deposits would be approximately 50% of the borrowing rate, which may vary between 5%-7% per annum.

13. It was also suggested that the interest rate payable by GPL be pegged to the weighted term deposit rates of the commercial banks which is currently 2.4% per annum; another suggestion was that the interest on consumer deposits be fixed at 75% of the weighted term deposit rate which approximates to 1.8% per annum.

ORDER

1. Taking into account all that has hitherto been set out and based on the assumption that the customer could have invested an amount, the equivalent of the security deposit, in a term deposit and earn interest at 2.4% per annum; the Commission hereby sets interest on consumer deposit at 2.4% per annum effective from the 1st November 2011.

2. Because interest rates are influenced by the dynamics of the economy it changes over time to reflect this new dynamism. The approved rate will, therefore, remain in effect for two years and will expire on the 31st October 2013, when it will again be the subject of a review.

THIS ORDER SHALL TAKE EFFECT FROM NOVEMBER 1, 2011.

Dated this 11th day of November, 2011.

Sgd. Prem Persaud
PREM PERSAUD - C.C.H - Chairman

Sgd. Badrie Persaud
BADRIE PERSAUD - Commissioner

Sgd. John Caesar
JOHN CAESAR - Commissioner

Sgd. Maurice Solomon
MAURICE SOLOMON - Commissioner