

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of	)	
	)	Docket No. UE-15 _____
Avista Corporation, d/b/a Avista Utilities	)	Docket No. UG-15- _____
	)	
For an Order Authorizing Accounting and Ratemaking	)	PETITION OF AVISTA
Treatment of Fees for Payments Made by Residential	)	CORPORATION
Customers	)	
_____	)	

**I. INTRODUCTION**

1 In accordance with WAC 480-100-203(3), Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington, hereby petitions the Commission for an Order authorizing the accounting and ratemaking treatment detailed in this Petition related to costs the Company will incur by offering a fee-free payment program for its residential customers to pay by any method, including credit and debit cards.

2 Avista is a utility that provides service to approximately 370,000 electric customers and 232,000 natural gas customers in a 26,000 square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves approximately 98,000 natural gas customers in Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its main office.

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3 Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040,  
RCW 80.28.020, and WAC 480-07-370(1)(b).

## II. SUMMARY OF PETITION

4 Avista requests Commission approval to defer, for later recovery in rates, the costs  
incurred to offer a fee-free payment program for its residential customers. The Company  
proposes to recover the costs associated with this program from all customers. Currently,  
Avista customers are subject to a \$3.50 convenience fee when making a credit or debit card  
payment through any payment channel or a one-time Automated Clearing House (ACH)  
payment via phone (both through the Company's IVR system or with a Customer Service  
Representative) and on the Company's website without an "Avista My Account." The \$3.50  
convenience fee is collected by a third-party vendor. Avista receives no portion of this fee.  
The transaction limit for credit/debit card payments (including convenience charges) is \$3,000  
per 26-day period per customer.

5 Payments made by check, cash, pay station, and ACH on the Company's website through  
an "Avista My Account" are free of charge. The costs associated for the Company to offer

these methods are paid for by all customers and not recovered exclusively by those specific customers that use that method of payment. As customer expectations change and more payments are done electronically, utility companies are beginning to offer fee-free payment programs for their residential customers for all methods of payment. As supported by the National Association of State Utility Consumer Advocates (NASUCA) in Resolution 2012-07, “Urging Utilities to Eliminate ‘Convenience Fees’ for Paying Utility Bills with Debit and Credit Cards and Urging Appropriate State Regulatory Oversight”<sup>1</sup>, and as further explained in this Petition, Avista believes it is reasonable to offer a fee-free payment program for all payment methods to its residential customers, and recover the costs associated with such a program from all customers through rates.

6 In 2014, Avista residential customers made a total of 249,852 payments by credit or debit card and 21,335 one-time payments without a “My Avista Account” (also known as unauthenticated payments) that were subject to a convenience fee. For illustrative purposes, if all of these payments were below the \$3,000 cap and subject to the \$3.50 convenience fee, customers would have paid a total \$949,154 in convenience fees to Avista’s third-party payment processing vendor. If Avista were to pay the costs of card and unauthenticated payments on behalf of its residential customers, the cost per transaction would be at a much lower rate as the major card networks (i.e., Visa and MasterCard) offer a Utility Pay Program where processing costs are much lower. With this model, Avista anticipates the cost to be approximately \$1.50 per transaction. From discussions with other utilities and payment processing vendors, Avista has learned that it is typical for a company that offers a fee-free payment program, which includes debit and credit card payments, to see a range of adoptions

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<sup>1</sup> <http://nasuca.org/2012-07-urging-utilities-to-eliminate-convenience-fees-for-paying-utility-bills-with-debit-and-credit-cards-and-urging-appropriate-state-regulatory-oversight/>

levels for payments through the program. Based on this information, the following table illustrates the ranges of costs Avista would expect to incur on an annual basis for the program.

Table No. 1

Payment Scenarios for Fee Free Program	Transaction Count	Charge/Transaction	Total Cost
2014 Payments Subject to Convenience Charge	271,187	\$1.50	\$406,780
10% of residential payments made in 2014*	475,984	\$1.50	\$713,976
15% of residential payments made in 2014*	713,976	\$1.50	\$1,070,964
20% of residential payments made in 2014*	951,968	\$1.50	\$1,427,952
25% of residential payments made in 2014*	1,189,960	\$1.50	\$1,784,940

\*Avista received 4,759,839 residential payments in 2014

Avista anticipates that it will have approximately 15% of residential payments come through the fee-free payment program, however, the Company will not know the actual adoption rates until the program is implemented and in place for a minimum of 12-18 months. The Company's expectation is that the adoption rates will gradually increase to 15% over a two year period with the adoption rates doubling during the first year. This expectation is aligned with what vendors have experienced with other utilities that make the switch from a convenience fee model to a fee-free payment model.

Absent a Commission order allowing for the deferral and recovery of these costs, the Company would not otherwise offer a fee-free payment program to its residential customers as it would result in a loss to the Company and its shareholders.

### III. BACKGROUND

Avista uses a third-party payment processor to process payments on its website, through its IVR system, as well as through the Company's Customer Service Representatives (CSRs) over the phone. When customers make a payment with a credit or debit card through these channels, or on the Company's website without an "Avista My Account", they are subject to a

convenience charge. More detail about Avista’s payment options are included in the following table<sup>2</sup>:

11 Table No. 2

**Payment Options**

	<b>My Account</b>	<b>Bank Bill Pay</b>	<b>APS</b>	<b>One-Time Payment</b>	<b>Mail a Payment</b>	<b>Pay in Person</b>
	<a href="#">Pay now</a>	<a href="#">Learn more</a>	<a href="#">Enroll now</a>	<a href="#">Make a payment</a>	<a href="#">Learn more</a>	<a href="#">Find pay station</a>
<b>Paper Bill*</b>	✓	✓	✓	✓	✓	✓
<b>Payment Source</b>	Checking or Savings Account	Your Bank	Checking or Savings Account	Credit, Debit, or Checking/ Savings Account	Check or Money Order	Cash, Check, Money Order
<b>Payment Options</b>	Customer Scheduled	One-Time or Recurring	Recurring	One-Time Only	One-Time	One-Time
<b>Cost</b>	FREE	FREE	FREE	\$3.50**	Postage	No fee for <b>authorized</b> pay stations
<b>Estimated Time to Post to Account</b>	1 Business Day	See Bank Rules	2 Days Prior to Scheduled Due Date	1 Business Day	Varies - can take up to 7 days or more	3 Business Days
*Or enroll in paperless billing and receive your bill electronically.						
**The \$3.50 convenience charge is collected by a third-party vendor. Avista receives no portion of this fee. Transaction limit for credit/debit card payments (including convenience charges): \$3,000 per account per 26-days.						

12 As shown in Table No. 2 above, and the footnote of the table, customers paying by credit or debit card are required to pay a \$3.50 convenience charge for payments totaling up to \$3,000 within a 26 day period. Payments over \$3,000 by credit or debit card are subject to a 3% transaction fee in lieu of the \$3.50 convenience charge. Customers paying electronically by checking or savings accounts through the IVR or a Customer Service Representative are also charged a \$3.50 convenience charge. Avista receives no portion of the \$3.50 convenience

<sup>2</sup> This table is provided on the Company’s website at [www.avistautilities.com](http://www.avistautilities.com).

charge. The amount of the charge is determined by the historical average payment amount and payment cap and is set by the payment processor.

13 The following table provides a summary of payments received by Avista from December 2014 through November 2015 across all customers classes:

<b>Payment Summary – Dec 14 – Nov 15</b>	<b>Transaction Count</b>	<b>Fees Paid by Avista</b>	<b>Avista Cost per Transaction<sup>(3)</sup></b>	<b>Customer Cost per Transaction</b>	<b>Payments Received from Customers</b>
Mailed <sup>(1)</sup>	1,860,702	\$523,346	\$0.28	\$0.00	\$619,241,436
Paystation	220,075	\$167,320	\$0.76	\$0.00	\$32,952,033
Online Payments (Bank bill pay, APS, etc...)	1,695,148	\$107,282	\$0.06	\$0.00	\$323,320,660
ACH - paid with a "My Avista Account"	809,704	\$140,170	\$0.17	\$0.00	\$113,505,583
One-Time Ach - paid without a "My Avista Account" <sup>(2)</sup>	18,999	\$635	\$0.03	\$3.50	\$5,046,334
Credit Card <sup>(2)</sup>	154,179	\$5,140	\$0.03	\$3.50	\$28,059,241
Pinless Debit <sup>(2)</sup>	99,636	\$3,405	\$0.03	\$3.50	\$16,207,333
<b>Total Payments</b>	<b>4,858,443</b>	<b>\$947,299</b>			<b>\$1,138,332,620</b>

(1) Mailed payments include all forms of payments received by mail, through drop boxes, and cash or check payments made in person at Avista's locations where the Company accepts payments. All of these payments are processed by the Company's remittance department. Costs for processing these payments cannot be separated as they are processed together within the same department.

(2) This represents the cost for receiving the funds into our bank and any return fees associated with the payments (Customer pays \$3.50 for these transactions)

(3) Avista's cost per transaction includes various components for each method of payment. The following is included for each payment method: (1) Mailed - labor, supplies, equipment and bank fees, (2) Paystation - monthly fees to pay station vendor and bank fees, (3) Online Payments - bank fees, (4) ACH with "My Avista Account" - vendor fees for processing and wire costs for settlement, and (4) One-Time Ach/Credit Card/Pinless Debit - wire costs for settlement. The cost per transaction for any method does not include technology or Call Center costs for payments made to a Call Center agent.

14 The transaction costs incurred by the Company for all payment methods are included in general administrative expense and the costs for a particular method of payment are not borne exclusively by those specific customers that use that method of payment.

15 Avista believes residential customers should not be charged a convenience fee for payments made through any of its payment channels<sup>3</sup>. The requirement to pay a convenience fee when making a payment is one of the largest frustrations customers express. Customers have grown accustomed to paying for other products and services with a credit card or debit card without a separate, additional fee. In addition, many local utilities or service providers do not charge a convenience fee, which also leads to customers' dissatisfaction or frustration for paying a convenience fee when paying their Avista bill. NW Natural Gas and Portland General Electric are two investor owned utilities that offer a fee-free payment program to residential customers. In Avista's Spokane service territory, customers of Vera Water & Power, Inland Power & Light, Modern Electric, and the City of Spokane do not pay a fee for making a payment. Also, customers of service providers for garbage (i.e., Waste Management), cable (i.e., Comcast), phone (i.e., CenturyLink), and cellular phones (i.e., AT&T or Verizon) do not pay a fee for making a payment.

16 Eliminating these fees would provide additional options for residential customers to pay their bills. As discussed in the National Association of State Utility Consumer Advocates (NASUCA)<sup>4</sup> Resolution 2012-07, "Urging Utilities to Eliminate 'Convenience' Fees for Paying Utility Bills with Debit and Credit Cards and Urging Appropriate State Regulatory Oversight", additional fees for paying utility bills can be burdensome. The following are excerpts taken from the Resolution:

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<sup>3</sup> Because commercial customers generally have more methods in which to pay, and their average payment amount is significantly higher than residential, which leads to higher processing costs, at this time Avista is not proposing a fee free program for commercial customers.

<sup>4</sup> <http://nasuca.org/2012-07-urging-utilities-to-eliminate-convenience-fees-for-paying-utility-bills-with-debit-and-credit-cards-and-urging-appropriate-state-regulatory-oversight/>

**URGING UTILITIES TO ELIMINATE “CONVENIENCE” FEES FOR PAYING UTILITY BILLS WITH DEBIT AND CREDIT CARDS AND URGING APPROPRIATE STATE REGULATORY OVERSIGHT**

*Whereas, some individuals, particularly those who lack access to bank accounts and to credit, by one estimate numbering roughly 50 to 70 million, [iv] are unable to write traditional checks or to direct electronic transfers and are therefore finding it difficult to pay utility bills without incurring additional charges; and*

*Whereas, the convenience fees are making it unnecessarily costly for utility customers, especially low income customers and customers struggling financially due to illness, layoffs or other reasons, to meet their payment obligations and hence to maintain essential utility services; and*

*Whereas, the conveniences fees make it hard for low income customers, when paying utility bills, to use the payment method that is often most available to them, namely, prepaid debit cards; [viii] and*

*Whereas, convenience fees imposed on debit card use undercut the policy objectives of federal programs (for example, social security) and state programs (for example, child support and unemployment compensation) that issue prepaid debit cards to beneficiaries as an effective and cost-efficient way to manage operational expenses, [ix] by eroding the purchasing power of such cards; and*

*Whereas, convenience fees repeatedly assessed against utility customers who make multiple payments during the course of a month undercut these customers' ability to apply scarce available funds to payment of actual utility services; and*

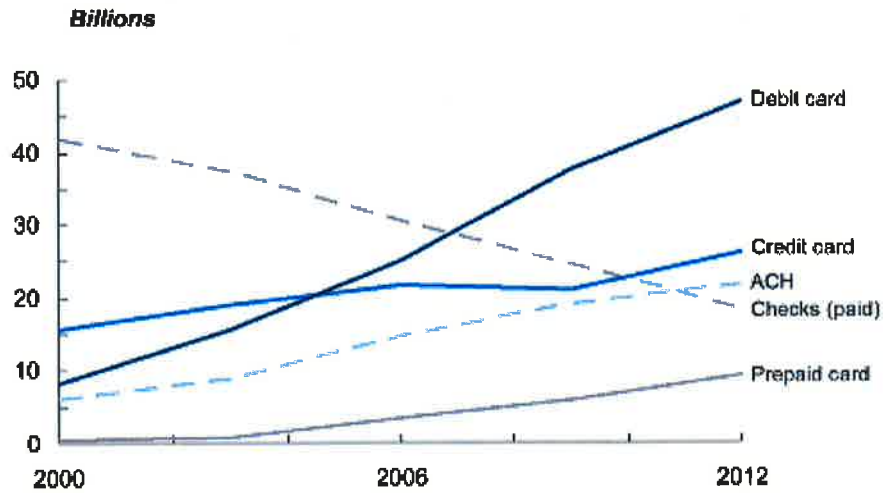
17 Convenience fees can be burdensome for customers that have limited options for making payments. The trend in payments is moving towards debit, credit, and prepaid cards through electronic channels. This is evident in the following illustration, provided by the Federal Reserve in their 2013 Federal Reserve Payment Study<sup>5</sup>.

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<sup>5</sup> The 2013 Federal Reserve Payments Study, July 2014.  
[https://www.frbservices.org/files/communications/pdf/general/2013\\_fed\\_res\\_paymt\\_study\\_detailed\\_rpt.pdf](https://www.frbservices.org/files/communications/pdf/general/2013_fed_res_paymt_study_detailed_rpt.pdf)



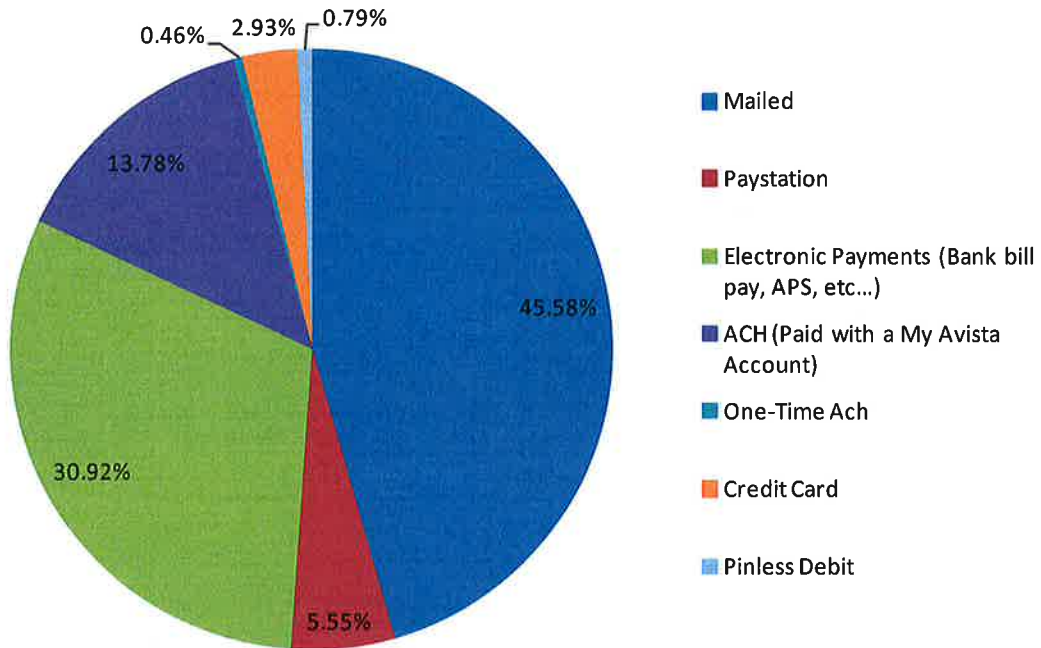
**Exhibit 1: Trends in noncash payments 2000-2012, by number and type of transaction**



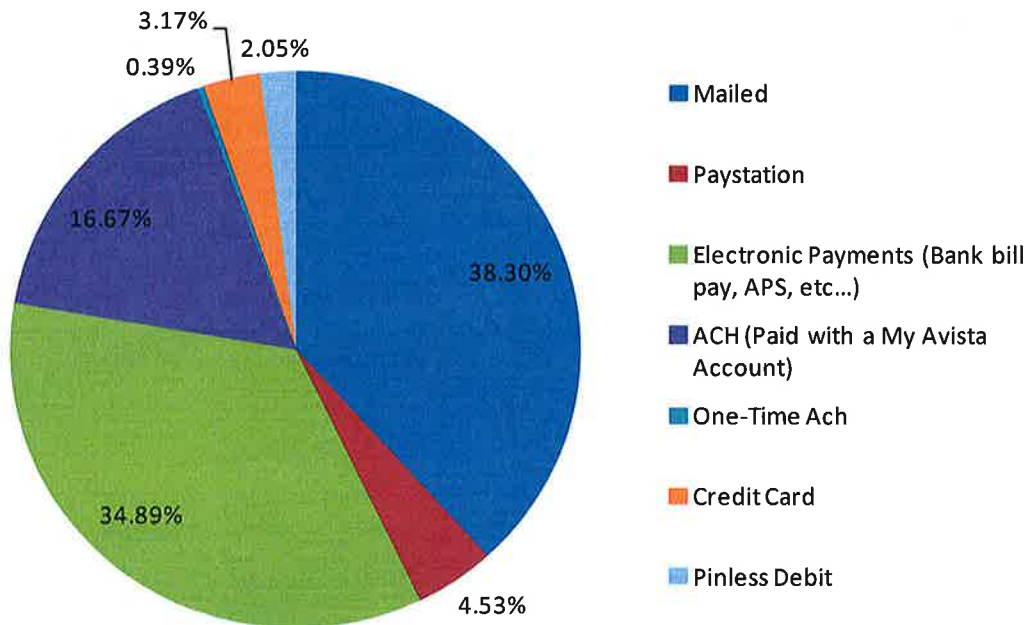
Credit, debit and prepaid card trends include general-purpose and private-label payments.

18 With the growing trend in debit, credit, and prepaid card payments it places even more emphasis on the discussion related to these channels and how the costs should be covered. For Avista, the primary source of payments has remained mailed payments. However, the trend for these types of payments is on the decline as customers turn more to electronic channels. From 2012 – 2015, Avista saw the number of mailed payments decrease from 46% of overall payments to 38% of overall payments. The following chart provides a breakdown of payments by method for Avista from 2012 – 2015:

## 2012 Payments by Method



## 2015 Payments by Method



Data is based on December 2014 – November 2015

19 With the growth in these payment methods, customers will continue to pay more in convenience fees unless there are changes made in how regulated utilities are able to recover these convenience fees.

20 The option of a fee-free payment when using a credit or debit card would lead to greater satisfaction for all customers that primarily pay for goods and services with these payment methods. There are many reasons why customers would prefer to use their credit or debit card, which may include: (1) receiving loyalty rewards, (2) younger generations that are most likely to pay digitally because they do not use paper checks, (3) using a prepaid card, or (4) customers feel safer using a debit card that includes security protections from their bank. Regardless of the reason a customer may have, they would be more satisfied with the ability to pay by the method of their choice without incurring additional fees.

21 As it exists today, all customers pay for the payment transaction costs incurred by the Company. The highest transaction cost Avista currently pays is for its pay stations, which are used for roughly 5% of payments. Another example where costs are shared amongst all rate payers is the costs to print and mail bills. Approximately 105,000 Avista customers are signed up to receive paperless bills. Customers that receive their bill electronically are paying a share of the costs to print and mail bills to other customers. For every bill that is sent electronically, it saves the Company \$0.58 or \$6.96 per account per year. The customers that sign up for paperless billing do not receive a discount.

22 The more convenient the Company can make it for customers to pay bills, the more it can benefit all customers. Customers that self-serve, pay on time, and are satisfied with the options they have are the least expensive to serve, which is a benefit to all customers. Customers that do not pay on time and end up in the credit collections cycle drive increased

costs, which are paid for by all customers. Lastly, customers that are not satisfied tend to call Customer Service more frequently. Every call that comes into the Call Center costs approximately \$6 in labor costs alone. This means that every call that can be avoided leads to savings for all customers. Giving customers options to pay by the method of their choice without incurring additional fees will lead to more satisfied customers and ultimately savings for all customers.

#### **IV. PROPOSED ACCOUNTING TREATMENT**

23 In this filing, the Company is requesting an order allowing the deferral of all fees paid by Avista related to offering a fee-free program for payment of bills by Washington residential customers. Absent a Commission order allowing for the deferral and recovery of these costs, the Company will not otherwise offer a fee-free payment program to its residential customers as it would result in a loss to the Company and its shareholders.

24 The Company plans to request authority in Idaho and Oregon to implement the same accounting treatment for residential customers payments received in those states. The Company is in the process of selecting a digital payment processing partner for processing payments, with an anticipated Go Live date in the first half of 2016. After approval from all three states and the implementation with the payment processing partner is complete, Avista would begin the fee-free payment program. The deferral of fees paid by Avista would begin in the same month in which the program begins.

25 After the Company has 12 to 18 months of history with the program, the cost of the program would then be rolled into a future general rate case filing. The Company is requesting approval of a deferral up to 36 months to accommodate a general rate case filing

following 12 to 18 months of actual expenses. The Company will provide updates to the Commission every three months after the program is implemented, which will include participation rates and fees incurred by month.

26 In the rate case filing following 12 to 18 months of experience, the Company would propose to amortize and recover the costs from all customers over a two-year period with no return on the unamortized balance. Although the fee-free program will be available to residential customers only, the Company believes the program will benefit all customers and is similar to other programs offered to residential customers, but paid for by all customers. Some of these benefits and other examples of programs are as follows:

- a. Low Income Rate Assistance Program (LIRAP) – LIRAP provides energy assistance to low income and senior residential customers and is paid for by all customers.
- b. Payment channels – as noted above, costs incurred to provide payment channels such as by mail, pay station, over the phone with a Customer Service Representative, or online through a “Avista My Account” are included in general administrative expense and not borne exclusively by those specific customers that use each payment channel.
- c. Electronic billing – individual customers do not receive a discount for signing up for electronic billing; rather reduction in costs to print and mail physical bills is a benefit received by all customers.
- d. Potential cost savings – as noted, each phone call to the Company’s Customer Service Call Center costs approximately \$6 in labor costs. The company believes that offering this fee-free program to residential customers may lead to fewer phone calls as customers will have more options for paying their bill free of charge.

27 The Company requests to defer the costs in Account 182.3 – Other Regulatory Assets. A summary of the accounting entries follow:

<u>FERC Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
903.X	Customer Records and Collection Expenses	\$ 100	
232.1	Accounts Payable - General <i>To record payment of customer payment transaction fees.</i>		\$ 100
182.3	Other Regulatory Assets	\$ 100	
407.4	Regulatory Credits - Deferral <i>To record deferral of customer payment transaction fees.</i>		\$ 100

Note: Associated current and deferred income taxes will be recorded.

28 As explained earlier, in the future general rate case Avista would request recovery of the deferred balance over a two year period, beginning on the effective date of new rates from the rate case. The Company does not seek to accrue interest on the deferrals. The monthly accounting entries to record the amortization follow:

<u>FERC Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
407.3	Regulatory Debits - Amortization	\$ 100	
182.3	Other Regulatory Assets <i>To record amortization of customer payment transaction fees.</i>		\$ 100

Note: Associated current and deferred income taxes will be recorded.

30 The Company estimates that approximately \$930,000 in costs will be deferred between July 1, 2016 and December 31, 2018 on a Washington electric allocated basis and \$587,000 on a Washington natural gas allocated basis. On an annual basis the Company estimates the costs of the program to be approximately \$372,000 and \$235,000 on a Washington electric and natural gas allocated basis.

**V. REQUEST FOR RELIEF**

31 WHEREFORE, Avista respectfully requests that the Commission issue an Order approving the deferred accounting and ratemaking treatment of the costs incurred for Avista to offer a fee-free payment program for residential customers. Recovery of the deferred costs over a two year period would occur through a general rate case following 12 to 18 months of experience under the program, as explained in this Petition.

DATED this 12<sup>th</sup> day of January 2016

By:   
Kelly Norwood  
Vice President, Avista Corp.

