

Agenda Date: March 24, 2016
Item Numbers: A4 and A5

Dockets: UE-160203 and UG-160204
Company: Puget Sound Energy

Staff: Christopher Hancock, Regulatory Analyst

Recommendation

Issue an order approving the proposed accounting treatment.

Discussion

On April 6, 2015, the commission opened Docket A-150561 to investigate current utility and transportation industry practices regarding credit and debit card payments by customers, and to reevaluate the regulatory framework surrounding these payments. Staff solicited two rounds of comments from regulated companies and industry stakeholders, and conducted a workshop on June 9, 2015. Multiple regulated energy utilities and Public Counsel expressed interest in fee-free programs for customers paying with credit and debit cards. Puget Sound Energy's filings in Dockets UE-160203 and UG-160604 are a product of the interest generated by that workshop.

In the proposed accounting treatment, Puget Sound Energy (PSE) seeks to defer all fees paid by PSE related to offering a fee-free program for payment of bills by Washington customers that use credit and debit cards. PSE has established payment size and payment frequency standards that effectively restrict this program to residential and small business customers.¹

Under current practices, PSE's residential and small business customers that wish to pay their bills with a credit or debit card are faced with a \$2.00 fee that is assessed by the company's third-party payment processor. This fee never passes through PSE. All other standard forms of payment (i.e., money orders, checks, cash) do not involve a "convenience fee." Instead, the costs of processing these payments are recovered as a routine administrative expense through rates.

In 2014, PSE was able to lower this convenience fee from \$4.95 to the current \$2.00 figure. This was done in part by demonstrating to their payment processor that the payments made by PSE's customers would be much cheaper to process than the payment processor had originally anticipated.

PSE and their payment processor now believe the costs per transaction can be lowered to \$1.50 per payment. To achieve this lower cost, PSE would first have to meet the qualifications established by payment networks (such as VISA or MasterCard) for use of the lower "utility rate" interchange rates. Access to this lower interchange rate requires demonstrating to payment networks that the utility is the entity incurring the costs of processing payments.

¹ PSE restricts payments to no more than \$1100, and restricts the frequency to no more than 3 payments in a 30 day period. Avista's proposal in this same Open Meeting would restrict payments to those no more than \$1000, and is able to restrict its program to residential customers by referencing the account number when a payment is initiated.

In order to achieve this standard, PSE seeks to defer the costs associated with processing these payments. Approval of the deferral would allow PSE to begin the fee-free program in August of this year.² The total length of time in which deferred costs are anticipated to be accrued is 18 months, based on an assumed rate-effective date of January 1, 2018, of PSE’s upcoming rate case.³ PSE has agreed to provide updates every three months on how the program is progressing.

PSE’s next general rate case will include three elements related to a fee-free program:

1. Recovery of the deferred account balance that the company seeks to establish in this petition;
2. A *pro forma* expense adjustment for recovery of the fees expected to be incurred during the rate year;
3. A deferral account, separate from the one sought in this petition, which will capture the difference between the fees set through rates and the actual fees incurred serving customers, due to an anticipated “ramp up” of card usage under a fee-free program.⁴

PSE forecasts processing 2,255,693 payments in the first year under a fee-free program. This figure is based on an assumed 14 percent adoption rate by eligible customers, which matches the 14 percent adoption rate experienced by Northwest Natural Gas Company (NW Natural).⁵ Over a presumed 18 month deferral period at a 14 percent adoption rate, this would amount to a balance of approximately \$5.1 million.

Date	Event	Estimated Deferral Balance
March 2016	Commission approves deferral	\$0
August 2016	Fee-free program begins	\$0
January 2017	PSE files next GRC	\$1,409,808
July 2017	GRC: Intervenor response testimony	\$3,101,578
August 2017	GRC: Rebuttal testimony	\$3,383,540
December 2017	GRC: Final order issued	\$4,793,348
January 2018	GRC: New rates in effect	\$5,075,309

Approval of a deferral would also allow the record to reflect known-and-measurable customer behavior under a fee-free program, without exposing the company to large losses.

² PSE’s vendor has estimated that it would take 4 to 5 months to convert to a fee-free program.

³ The proposal is for costs incurred up to the date rates are first established in the upcoming general rate case, or no later than January 1, 2018, whichever is sooner. PSE expects to file a general rate case no later than January 17, 2017.

⁴ PSE anticipates that usage rates will rise to 20 percent by 2019, as more customers become aware of a fee-free program.

⁵ NW Natural currently has a fee-free program that is available to its Oregon and Washington customers. The vast majority of NW Natural’s customers are in Oregon, where NW Natural received approval for a fee-free program during their last general rate case. NW Natural has not sought recovery of these costs in Washington.

Moving to a fee-free program would eliminate the \$2.00 “convenience charge” customers currently face, and instead would result in the company paying roughly \$1.50 per transaction for these same payments. PSE expects adoption rates to rise from the current figure of 8 percent to 14 percent rate in the first year under a fee-free program. By 2019, PSE estimates that 20 percent of the company’s payment mix would be made through bank cards under a fee-free program.

Conclusion

PSE’s proposed accounting treatment would enable the company to proceed with implementing a fee-free program for residential and small business customers paying by credit and debit cards, at a lower cost for each payment processed.

Recommendation

Issue an order approving the proposed accounting treatment.