

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-151871 UG-151872
Puget Sound Energy's
Electric and Natural Gas Equipment Lease Service**

WUTC STAFF DATA REQUEST NO. 038

WUTC STAFF DATA REQUEST NO. 038:

Tariff Sheet 75, Availability (4), states: "Lease services will only be available to Customers with a credit rating acceptable to the Company" Please provide a detailed explanation of what constitutes "a credit rating acceptable to the Company." Please include in your response:

- a. All of the credit criteria that PSE will consider;
- b. How PSE will determine what credit rating is sufficient for participation in the leasing program;
- c. Whether PSE uses the same credit rating for participation in all of the services it provides, and if not, why the standard for the proposed leasing program differs from other credit rating standards;
- d. Whether PSE will run an external credit check for all potential customers or only some customers, and if the later, please describe the factors that would trigger an external credit check; and
- e. WAC 480-100-108(2)(d) allows customers to choose from a list of five sources of proof of identification. If PSE is unable to run a credit check with the proof of identification chosen by the customer, what does PSE intend to do in these cases?

Response:

Puget Sound Energy ("PSE") revised its initial credit assessment process based on input received from WUTC Staff in August, 2015. Attached as Attachment A to PSE's Response to WUTC Staff Data Request No. 038 is an email exchange between PSE and WUTC Staff that includes discussion of changes PSE made to its draft tariff language to account for a WUTC Staff "idea of considering the bill payment history of

the Customer” in determining eligibility, which included internal “credit worthiness” profiles PSE has defined for Customers based on their payment history.

As for an explanation of what constitutes an acceptable rating, please see PSE’s Response to Public Counsel Data Request No. 005.

- a. PSE will only consider the internal creditworthiness criteria noted above.
- b. As discussed in PSE’s Response to Public Counsel Data Request No. 005, PSE has established the following threshold for participation in the lease service: Customers with a “good” internal creditworthiness profile. In establishing this threshold, PSE referenced *A Theory of Credit Scoring and Competitive Pricing of Default Risk* (<http://www.sas.upenn.edu/~vr0j/papers/cs081009.pdf>) to understand if there was a correlation between higher default rates and lower FICO scores. The above-referenced research detailed that approximately 60% of people have a default rate of 5% or lower, with the weighted-average default rate of this population of people equaling 2.7%. Similarly, as detailed in PSE’s Response to Public Counsel Data Request No. 005, 65% of PSE residential and commercial contract accounts have a current creditworthiness rating of “good”. Given the close correlation between these populations, and the fact that PSE has used the above noted weighted average default rate assumption in establishing the cost of bad debt in its pricing work paper, PSE has determined that establishing a threshold of customers with a “good” internal credit worthiness profile is appropriate for participation in the lease service.
- c. PSE does not currently use its internal “creditworthiness” profiles to determine customer eligibility for participation in any of the existing services provided by PSE. The eligibility criteria detailed above was deemed appropriate because PSE will be investing considerable capital upfront to install and maintain leased equipment at customer sites, so the assessment of customer payment history is a just, fair and prudent method for managing costs for all customers choosing the option to participate in the lease service.
- d. At this time, PSE does not intend to run external credit checks to determine eligibility for any potential customers under proposed Schedule 75, consistent with the input received from WUTC Staff in August 2015.
- e. PSE does not intend to run external credit checks. Therefore, no additional data will be required, consistent with the input received from WUTC Staff in August 2015.