

ONITA R. KING
Rates & Regulation
Tel: 503.721.2452
Fax: 503.721.2516
Email: ork@nwnatural.com



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VIA ELECTRONIC FILING

Steven V. King, Executive Director and Secretary
WASHINGTON UTILITIES &
TRANSPORTATION COMMISSION
1300 S Evergreen Park Drive, SW
Post Office Box 47250
Olympia, Washington 98504-7250

RE: **Docket No. A-150561:** Consumers Using Credit Cards to Pay for Services
NW Natural Comments and Responses to WUTC Questions

Northwest Natural Gas Company, dba NW Natural (“NW Natural” or the “Company”), submits the following comments in accordance with the Washington Utilities & Transportation Commission’s (“Commission”) April 20, 2015 Notice of Opportunity to Submit Written Comments and Notice of Workshop (the “Notice”) issued in Docket A-150561. The Notice states that the Commission established this docket to investigate current utility and transportation industry practices regarding credit card payments by customers, and to reevaluate the regulatory framework surrounding these payments. The Notice further states that the Commission is seeking written comments from interested persons to specific identified issues.

NW Natural’s responses to Staff’s specific identified issues are set forth below.

Staff’s Questions and Answers

Costs and benefits to the company and other ratepayers

- 1. Please describe your current practice for processing non-cash/non-check payment methods. If you currently accept debit and credit card payments, what are the transaction fees incurred by customers using these methods? Are there any costs incurred by the company?**

In addition to cash and check payments, NW Natural accepts payment from customers in the following ways:

- auto pay from customer’s savings or checking account,
- auto pay from customer’s credit/debit card,
- ACH from customer’s financial institution,
- one-time electronic check (by phone or website),
- one-time credit/debit card payment (by phone or website)
- community pay station (credit/debit card and cash or check),
- wire transfers (Non-Residential only).

The consumer cost and the cost incurred by the Company for each payment channel is provided in the accompanying Excel file titled NWN Table 1 Docket A-150561 ("Table 1"). Note that the data contained in Table 1 is for the calendar year 2014.

2. What transaction costs are involved with the forms of customer payment listed below? Many of these costs may be costs that have been embedded; when reporting these embedded costs, please indicate how you arrived at your calculations.

- **Cash**
- **Check or money order (also compare by mail/dropbox to those made in person)**
- **Electronic check**
- **Credit card (also compare paying over the phone to online)**
- **Debit card (also compare paying over the phone to online)**
- **Automated Clearing House (ACH) financial transactions**
- **Other**

NW Natural does not capture cost data by the payment types listed in the data request. The Company tracks cost based on how the payment is received. For example, a cash payment may be taken at a pay station, paid to a service technician in the field, or placed in a drop box.

See the accompanying attachment, Table 1, for an estimated cost breakdown. At Table 1, transaction costs are divided into three categories: 1) bank & vendor fees, 2) labor to process the payment, and 3) other costs. Bank and vendor fees are allocated based on the payment channel to which the fee relates. Only bank fees that could be directly identified to a specific payment channel are included. Labor includes NW Natural employee and direct supervision time relating to processing customer payments. Time was allocated based on the amount of time spent on each channel. Other costs were assigned to the specific payment channel; for example, armored car service was allocated to field collected payments as this service is used to transport such payments to the corporate office for processing.

3. Please provide an indication of the number of payments, and dollar volumes, made using each method.

See accompanying attachment, Table 1.

4. Please provide an indication of the average cost to process a transaction for each of the above forms of transaction. Please also calculate the average bill for each type of payment method.

See Table 1 for information on the average cost to process the various payment transactions NW Natural does not have the information requested for an average bill by type of payment.

5. Are measures taken to ensure that processing costs for a particular method of payment are borne exclusively by those specific customers that use those specific methods of payments?

The total costs associated with bill payment processing are allocated across all customer classes using the rate allocation approved in the Company's last general rate case. The only payment transaction charge the Company assesses to a specific user is for call center staff-assisted one-time electronic payments; this service is offered without charge for self-service processing by telephone or on the website.

6. What advantages do you see to making credit and debit card billing options available to customers? What has precluded your company from doing so if it hasn't already?

In general, consumers are moving away from paying bills, utility and otherwise, by check or cash. In 2005, approximately 73% of NW Natural's customers paid by check through the U.S. mail. In 2014 less than 30% of customer payments are paid by check. In our experience, consumers are looking for a variety of electronic payment channels, including a bankcard payment option.

NW Natural tries to provide customers with payment options generally available to US commerce. Accordingly, we began accepting bankcard payments many years ago. However, due to the transaction fee charged for that payment option, utilization was fairly limited – about 2%. Since the removal of the transaction fee in late 2012, the adoption rate for credit/debit card payments has increased significantly, to about 14%.

7. What advantages and disadvantages are there in having card payments processed by a third-party, such as BillMatrix? Is there a better option for processing credit and debit card payments, such as contracting through a bank? What are the costs of these alternative processing methods, and how would they impact the use of credit cards?

The use of a vendor (e.g., BillMatrix) to serve as the merchant's service provider enables the utility to avoid having to develop the system infrastructure required to connect to the bankcard interchange network. Further, if the utility does not collect, process or store sensitive cardholder data, there is reduced risk to the utility of theft of sensitive customer financial data. NW Natural does not have cost data for in-house bankcard processing models.

8. Should companies charge convenience fees for debit and credit card customers? If not, what is the rationale for recovering the costs associated with debit and credit card payments from rates charged to all customers, including those who do not, and may not ever, use the service?

Effective November 2012, as part of its general rate case settlement in Oregon, the Oregon Commission authorized NW Natural to recover an amount in customer rates to cover the costs of a fee-free bankcard payment option. At the same time, NW Natural discontinued charging a fee for customer payments made by bankcard in the state of Washington.

NW Natural decided to make this payment type free to all Oregon and Washington customers for several reasons. First, under the prior arrangement, it was mostly utilized by at-risk customers and the \$3.95 fee created an additional financial burden. Second, the transactional cost could drop by two-thirds if the utility paid the bankcard fees. (Average utility interchange transaction cost is ~\$1.19 vs. \$3.95 under the old model.) And lastly, customers frequently expressed their desire to be able to make utility payments by bankcard without incurring a fee.

(Customers can use the bankcards most everywhere else they shop, why can't they pay their utility bills too.). Since the fee was discontinued, the adoption rate for bankcard payments has grown from about 2% to about 14%.

The rationale for recovering from all ratepayers the cost of accepting bankcards as a payment option is the same as it is for including in customer rates the cost of accepting any other type of payment option. Not all customers use all of the traditional payment options either, but the costs associated with these traditional payment methods have been included in customer rates and allocated across all customer classes.

Costs and benefits for adopting customers

1. What advantages and disadvantages would automatic payments through credit and debit cards provide to your customers?

Customers like the convenience of the automatic payment option. Customers that travel or simply have busy lifestyles may find this option helps them avoid a missed payment that might trigger an unexpected service disconnection. Many customers use this option to take advantage of special offers available through their credit card provider (e.g. air mile rewards).

Effective January 2014 NW Natural has provided customers the option of automatically paying their utility bills using their bankcard. As of March 31, 2015, 3% of Washington customers have signed up to automatically pay by bankcard.

Consumer protection issues

1. Several utilities currently allow customers to sign up for automatic billing through their checking accounts. How are these customers treated and indemnified when there are billing mistakes? For example, does the company provide account credits or refunds to the customers' checking accounts?

NW Natural does not return credits to the customer's financial institution (checking/savings). If the bill error is identified prior to the bill due date, a corrected bill will cancel the original payment request and establish a new payment request with a corresponding adjusted bill due date. If the bill error is identified after the payment has occurred, and if the corrected bill is greater than the original bill, the additional amount will be drawn on the due date of the new bill. If the corrected bill is less than the original bill, the credit will remain on the customer's account unless they request a refund.

2. What options are available to so-called "unbanked" customers? Many of these customers receive government benefits, or their salary from their employers, in the form of MasterCard or Visa pre-paid debit cards.

Customers can use pre-paid bankcards the same as any other bankcard through the bankcard interchange system (VISA, MasterCharge & Discover). In addition, debit cards can also be used at a large number of the Company's pay stations.

3. Are pre-paid debit cards, such as those offered by MasterCard or Visa, treated any differently than traditional credit or debit cards?

No. Pre-paid bankcards are not treated differently than other cards. However, the Company understands that these cards may experience a higher rate of transaction declines by the interchange network for unknown reasons that are outside of the control of NW Natural. The Company is not aware of any customer complaints about the use of pre-paid cards by customers.

4. If the company undertakes its own credit card processing functions rather than using a third party, what protections would be put in place to ensure customer information is kept safe?

NW Natural uses a third party to process customer bankcard payments. To ensure customer information is kept secure, no card data is processed or stored on any NW Natural application and the third party vendor is responsible to maintain PCI compliant certification. NW Natural does not anticipate performing the card processing in house.

NW Natural appreciates the opportunity to comment in this proceeding, and we look forward to participating in the June 9, 2015 workshop.

Please address correspondence on this matter to me with copies to the following:

eFiling
Rates & Regulatory Affairs
NW Natural
220 NW Second Avenue
Portland, Oregon 97209
Telecopier: (503) 721-2516
Telephone: (503) 226-4211, x3589
eFiling@nwnatural.com

Sincerely,

NW NATURAL
/s/ Onita King

Onita R. King
Rates and Regulation

Attachment: NWN Table 1 Docket A-150561