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May 15, 2015

Via Electronic Mail

Steven V. King, Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
1300 S. Evergreen Park Drive S.W.
Olympia, Washington 98504-7250

**Re: Docket A-150561
Comments of Puget Sound Energy, Inc. on Consumers Using Credit Cards
to Pay for Services**

Dear Mr. King:

Puget Sound Energy, Inc. ("PSE," "Company") submits the following comments in response to the request in the Washington Utilities and Transportation Commission's ("Commission") Notice of Opportunity to File Written Comments ("Notice") issued in Docket A-150561.

PSE is a combined electric and natural gas utility serving more than 1 million electric customers and approximately 770,000 natural gas customers in western Washington State. PSE is a vertically integrated utility that owns, operates and maintains a mix of approximately 3,600 MW of generation resources, along with energy delivery systems that are equivalent in length to four roundtrips from Seattle to Washington, D.C. (electric lines) or a once around the Earth at the equator (natural gas lines).

Introduction

PSE appreciates the Commission's focus on enhancing the customer experience including this investigation into current utility practices and the regulatory framework for payment options to meet today's customer preferences and expectations. In the last few years, PSE has developed a Customer Experience Strategic Plan and dedicated significant time, energy and resources to better understand the changing nature of our customer demographics, expectations and preferences. Company research thus far shows today's customers expect choice, ease, simplicity of transactions, customization

and control of their experience. These expectations apply to the growing use of credit and debit cards for billing and payment. Combined, credit and debit card usage nationally and within PSE service territory has grown more from 2003 to 2012 compared to all payment types as seen in Table 1.¹

Table 1: 2003 to 2012 National Payment Trends

	2003	2006	2009	2012	CAGR*	
					2003-12	2009-12
Total (billions)	81.4	95.2	108.1	122.8	4.7%	4.4%
General-purpose card	30.8	44.3	58.4	73.8	10.2%	8.1%
Credit card	15.2	19.0	19.5	23.8	5.1%	6.8%
Debit card	15.6	25.0	37.5	47.0	13.0%	7.7%
Prepaid card**	0.0	0.3	1.3	3.1		33.5%
Private-label card	4.6	5.8	6.1	8.5	7.1%	11.6%
Credit card	3.8	2.7	1.5	2.4	-4.8%	17.1%
Prepaid card	0.8	3.0	4.6	6.1	24.9%	9.7%
ACH	8.8	14.6	19.1	22.1	10.9%	5.1%
Checks (paid)	37.3	30.5	24.5	18.3	-7.6%	-9.2%

Figures may not add due to rounding.

*CAGR is compound annual growth rate.

**The number of prepaid card transactions in 2003 was negligible.

PSE customers have a growing expectation to use card payments and they demand the same experience for all card payments whether they pay PSE, Seattle City Light or Snohomish PUD. This means that PSE customers want to make card payments without having to pay a fee associated with the use of the payment method like they do at other utilities. PSE currently has a pass-through convenience fee that its customers are required to pay to use a credit or debit card. PSE research shows that customers do not like this fee and do not understand why PSE charges a fee when most companies, including utilities operating within PSE's service territory, do not charge a fee.

¹ The 2013 Federal Reserve Payments Study: Research Sponsored by the Federal Reserve System, December 19, 2013

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?

PSE has accepted non-cash/non-check payments in the form of electronic payments, such as Automated Clearing House (ACH), and Debit/Credit Card payments for over 10 years. Over this period PSE has seen steady growth in these payment channels as our customers, and society at large, increasingly use non-cash/non-check payments as their primary method for making payments. PSE expects that 60 percent of the payment transactions in 2015 will be non-cash/non-check payments. PSE contracts with a third-party vendor, FISERV, for multiple forms of payment processing including credit/debit transactions, ACH and others.

PSE customers are assessed a \$2.00 convenience fee to make a payment using a debit or credit card. In addition, velocity rules limit the size of a credit/debit payment and the number of times a debit or credit card can be used in a single month on a single account. Effectively, these rules limit card usage to residential customers. A convenience fee is defined, per VISA, as a bona fide convenience in the form of an alternative payment channel (i.e., mail, telephone, e-commerce) outside the merchant's customary payment channels (i.e., not solely for the acceptance of the Visa card).² For example, A VISA convenience fee is applied when a customer uses a Voice Response Unit (VRU) to make a payment. The convenience charges are 100% pass-through from PSE customers to PSE's debit/credit card processing vendor, FISERV.

The convenience fee is a pass-through between PSE customers and FISERV, therefore PSE does not incur a cost to enable customers to use debit or credit cards. However, PSE does utilize FISERV for more services than debit/credit card processing such as walk-in payment at certified locations, ACH, eBill distribution, and others. The convenience fee is part of the overall contract and is negotiated with FISERV. In 2014, PSE and FISERV renegotiated the convenience fee from \$4.95 to \$2.00 per payment. In addition, PSE is currently working with FISERV, to reduce the ACH and eBill distribution by 19 percent.³

² Card Acceptance Guidelines for Visa Merchants

³ PSE cannot provide exact ACH and eBill transaction costs without violation of vendor contracts

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

Table 2 below demonstrates the relationship between transaction type, cost, and revenue associated with different forms of payment offered by PSE. In addition, the table shows which forms of payment include embedded costs. To calculate embedded costs PSE aggregates all third party fees and operating costs. Using mail-in payment as an example, PSE aggregates the equipment cost, maintenance contracts, and FTE cost to support the process. It is important to note that costs can be variable or fixed. Mail-in payment, for example, includes more fixed costs which equate to a higher per unit processing cost as customers shift away from mail-in payment options.

Table 2: Annualized view of payment process Transactions, Cost, and Revenue

Payment Processing forms	Monthly Transaction Count	Annual Transaction Count	Product Mix (By Count)	Annual Cost to Process	Annual Revenue Collected	Average Payment	Avg Per Unit Cost	Embedded Costs (Y/N)
Mail-In (Lockbox)	468,504	5,622,053	36.4%	\$ 924,270	\$ 1,536,383,015	\$ 273	\$ 0.16	Yes
Electronic Payment	689,101	8,269,211	53.5%	\$ 1,404,190	\$ 1,176,704,661	\$ 137	\$ 0.12	Yes
Credit/Debit Card	77,126	925,517	6.0%	\$ 2,988,650	\$ 182,239,629	\$ 197	\$ 2.00	No
Pay Stations (3rd Party)	26,308	315,697	2.0%	\$ 225,340	\$ 49,282,488	\$ 156	\$ 0.71	Yes
PSE Business Offices	16,227	194,724	1.3%	\$ 543,630	\$ 68,558,209	\$ 352	\$ 2.79	Yes
Field Collections	3,716	44,588	0.3%	\$ 2,669,450	\$ 10,578,436	\$ 237	\$ 59.87	Yes
Collection Agencies	1,978	23,731	0.2%	\$ 466,250	\$ 1,847,494	\$ 78	\$ 19.65	Yes
*Other Payments	4,705	56,456	0.4%	\$ 73,690	\$ 193,475,049	\$ 6,388	\$ 6.75	Yes
Total	1,287,665	15,451,977	100.0%	\$ 9,295,470	\$ 3,219,068,980	\$ 208	\$ 12.19	

Note: Figures are from Jan-Sep 2014. All Annual figures are Annualized using 2014 Jan - Sept Actuals

*Large Commercial and Government Special electronic payment (ex. EDI)

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

Please see Table 2 above.

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.

Please see Table 2 above.

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?

Debit or credit card processing costs are the only payment processing cost that is borne exclusively by the cost causer. For the other payment methods, Table 2 above demonstrates that, transactions, revenue, and cost vary depending on the type of payment processing method and all these costs are spread to all customers. This is also the same for billing costs. Regardless of whether customers receive paper bills or electronic bills, billing costs are spread to all customers.

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?

Meeting PSE customer demands and expectations is the biggest advantage to making credit and debit card billing options available. As noted in Table 1 above, card payments are becoming more prevalent as the primary payment method for several demographics. In particular, the millennial generation born between 1985 and 2004 expect mobile and card payment options. Mobile bill pay grew from 6 percent in 2011 to 27 percent in 2014 with 50 percent of the transaction being a card payment.⁴ In addition, a 2013 study by Western Union shows that Millennials are 13 percent more

⁴ Seventh Annual Billing Household Survey, Fiserv Inc., 2014

likely to make a debit card payment and 10 percent more likely to make a credit card payment than all other bill payers.⁵

While customer satisfaction drives PSE's advocacy for recovering convenience fees in rates, there are other potential utility operational benefits to wider adoption of recurring payment using debit and credit cards. More customers electing credit or debit card recurring payments could reduce the need for more expensive and inefficient bill collection systems such as personnel making reminder calls, sending notices in the mail, and rolling trucks of field collection agents making trips for collection, shut-offs, reconnects or others. Many of these benefits would depend on the size and scale of customers setting up credit and debit card recurring payments.

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 one undisputed advantage of using a third-party card payment processor is eliminating the need for PSE to become fully compliant with the Payment Card Industry (PCI) Data Security Standard (DSS). This is a costly endeavor for a company to undertake, and it is much more cost effective for a third-party to become PCI DSS compliant and provide a platform on which it can spread costs across multiple customers. The other potential advantage of using a third-party card payment processor is aggregating additional services, such as walk-in and eBill distribution payment, which increases a company's total spend with its third-party vendor. Typically, this will drive down costs for all payment processing channels.

For PSE, there currently is not a better option than contracting with third-party vendors for processing card payments. To contract directly through a bank, it is PSE's understanding that PSE would need to become fully PCI compliant, which is cost prohibitive. In addition, PSE is not familiar with any banking institution that has the product and services (hosted or through an Application Programming Interface, API) that would enable PSE to provide the necessary integration, protection, and services (web tools as an example).

⁵ "The Western Union® Bill Payments Money Mindset Index," September 2013

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?

PSE believes card processing convenience fees should be recovered in rates charged to all customers, including those who do not, and may not ever, use debit or credit cards to make a payment. The rationale for this change is to meet the rising demands and expectations of our customers in making a card payment without a fee. This is especially true for those PSE customers who are not assessed a fee when served by other utilities in the region.

PSE is being judged not just by the performance compared to other utilities in the region, but also to other product and service providers. PSE is being compared against utilities such as Comcast and CenturyLink, and also against companies like Zappos.com. Even just looking at utilities in the region as illustrated in Table 3 below, PSE is in the minority when it comes to assessing a credit card convenience fee on its customers.

Again, customer satisfaction drives PSE's advocacy for recovering convenience fees in rates, but there are other potential utility operational benefits to wider adoption of recurring payment using debit and credit cards. More customers electing credit or debit card recurring payments could reduce the need for more expensive and inefficient bill collection systems such as personnel making reminder calls, sending notices in the mail, and rolling trucks of field collection agents making trips for collection, shut-offs, reconnects or others. Many of these benefits would depend on the size and scale of customers setting up credit and debit card recurring payments.

Table 3: Convenience Fee Benchmarking

	Utility	Fee Y/N
	Waste	
*	Allied Waste / Rabanco	N
*	Waste Management	N
	Cable/Internet/Voice	
*	Century Link	N
*	Comcast	N
*	Direct TV	N
	Telecom	
*	AT&T	N
	Sprint	N
	T-Mobile	N
*	Verizon	N
	Water / Sewer	
*	City of Bellevue	N
	City of Kirkland	N
	City of Redmond	N
*	City of Renton	N
*	Northshore Utility District	N
*	Seattle Public Utilities	N
	Electric Utilities	
*	Seattle City Light	N
*	Snohomish County PUD	N
*	Tacoma Power	N
	Convenience Fee Charged	
*	Avista	Y
	CleanScapes	Y
	Sammamish Plateau Water & Sewer District	Y
*	Woodinville Water	Y
	*Utilities PSE pays using pcard.	

Finally, strict adherence to cost causer principles is improbable to maintain in utility ratemaking. It's the nature of utility ratemaking that cross-subsidies will exist and that certain classes of customers will pay for benefits of others. Today, there are customers who use low-cost billing services that are subsidizing the costs of higher cost billing services. Customers in certain areas cost more to provide electric or gas service than those in other areas. In this instance, PSE feels the customer satisfaction benefits of including credit and debit payment convenience fees in general rates is warranted and prudent.

Costs and benefits for adopting customers

Some customers may prefer automatic payments using a credit or debit card, as opposed to automatic payments with checks. For instance, some customers are hesitant to provide such access directly to a checking account, without the protection provisions associated with credit cards.

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

The advantage of automatic payments for customers is that it provides a carefree option to pay recurring bills. Automatic payment of recurring bills also reduces risks of disconnection and late fees. PSE customers appreciate a recurring payment option. Fifty percent of customers using an electronic payment option such as ACH elect to use the automatic recurring feature. Currently, PSE does not allow automatic (recurring) payments using credit or debit cards because the VISA rule does not allow a convenience fee to be charged to customers for recurring payments. However, PSE agrees with the Commission's statement that, "some customers may prefer automatic payments using a credit or debit card", and that with the added protection offered by a credit card it is likely that customers would appreciate and take advantage of this option.

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?

PSE allows customers to elect to automatically pay a bill through their checking account. PSE works to ensure that the customers who use this payment option are treated the same as those that pay with a check, but there are some minor differences highlighted in a few examples below.

- If PSE undercharges a customer, PSE automatically puts the undercharged past due amount on an installment plan and the customer is kept on automatic billing. PSE does notify the customer explaining the error.
- If PSE overcharges a customer, PSE will initiate a refund which includes the appropriate assessed interest. The customer is kept on automatic billing, and PSE does notify the customer explaining the error.
- If PSE encounters a customer whose payment request is returned because of an incorrect bank account or bad account number, PSE will waive any return payment fees as PSE is the owner of automatic payment set up. PSE does cancel the automatic billing in the system to ensure the issue does not persist and notifies the customer of the issue.
- If a customer has Non-Sufficient Funds (NSF), PSE will carry the charge to the next invoice as a "previous charge;" include an NSF pass-through fee, add it to next month's bill; and cancel the automatic billing in the system to ensure the issue doesn't persist. The customer is notified of the issue.

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.

In consideration with existing laws, PSE’s third party vendor model treats all customer debit and credit cards transactions the same. PSE does understand that more and more government benefits are being disseminated via some type of card option. For example, in March of 2013, the U.S. Treasury stopped mailing hard copy beneficiary checks and instead provides benefits via direct deposit or a pre-loaded Direct Express card. A U.S. Treasury Department 2012 Direct Express Cardholder Satisfaction Survey showed that 91% of participants stated card payments makes it easier to pay bills.

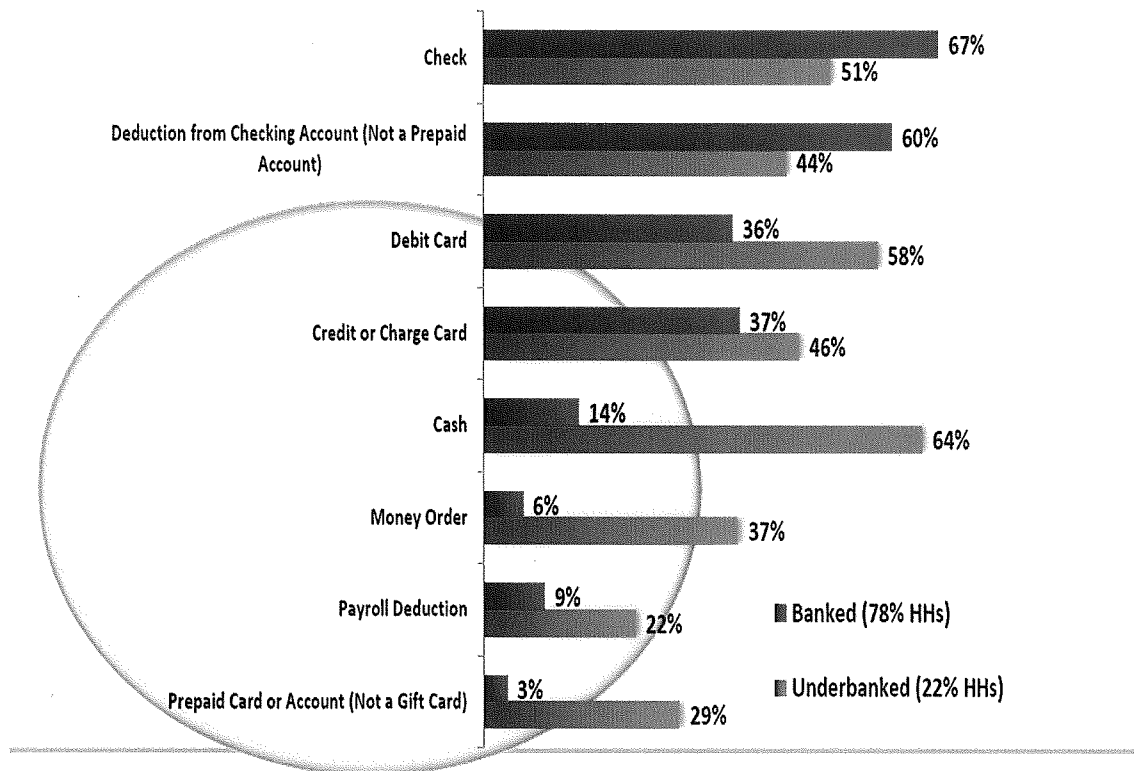
PSE does feel that allowing for the recovery of convenience fees in rates would provide benefit to “unbanked” customers. Any payment processing fee is a burden to this customer class. Figure 1 clearly shows that unbanked customers have specific payment preferences, and card payments (credit, charge, debit, or pre-paid) is high on their list.⁶ Therefore, the fee directly impacts “unbanked” and “underbanked” more than “fully banked” customers.

⁶ We define an unbanked consumer as someone who does not have a checking, savings, or money market account; also, the consumer’s spouse or partner does not have such an account. An underbanked consumer is someone who has a checking, savings, or money market account but who also has used at least one alternative financial service in the past 12 months, such as an auto title loan, payday loan, check-cashing service, or payroll card. By contrast, we refer to a consumer who has a bank account and does not use alternative financial services as “fully banked.”: Federal Reserve Bulletin, September 2012 Vol.98 No. 4

Figure 1: Banked vs Underbanked Payment Preferences⁷

Wide differences are shown for underbanked and banked populations – with higher usage rates among the underbanked for all payment methods except checks and electronic deductions.

% Using Payment Method to Pay a Bill in a Typical Month by Banked Segment



⁷ Copyright Phoenix Marketing International 2014

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

PSE's third party vendor model currently, and in consideration with existing laws, ensures that pre-paid debit cards are not treated any differently than traditional credit or debit cards.

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?

PSE does not plan to undertake its own credit card processions functions. The process to become fully PCI DDS compliant is laborious and requires large startup and ongoing maintenance costs. Becoming PCI DDS compliant and maintaining that compliance are not PSE core competencies. It is much more cost effective for a third party to become PCI DSS compliant and provide a platform on which it can spread costs across multiple customers. PSE would need to update its Customer Information System (CIS), add additional hardware to manage sensitive customer information, deploy private network connections to transmit information, add operation resources to monitor compliance, and add additional audits to keep PCI certification.

Conclusion

PSE thanks the Commission for its time and attention to understanding the changing expectations of today's utility customers including the preference for card payment options. PSE customers expect to make card payments and anticipate having the same experience for all card payments they make no matter the vendor. PSE's convenience fee for card payment is not in-line with customer expectations or the experience customers receive from other utilities. The convenience fee is an impediment to wider adoption of card payment at PSE and allowing the Company to recover the costs of convenience fees in all customer rates will increase customer satisfaction by providing a superior customer experience.

Mr. Steven V. King
May 15, 2015
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PSE appreciates the opportunity to provide these responses to the questions identified above in the Notice of Opportunity to File Written Comments. Please contact Nate Hill, Regulatory Affairs Initiatives Manager at (425) 457-5524 or myself at (425) 456-2110 for additional information about this filing.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken Johnson", with a long horizontal flourish extending to the right.

Ken Johnson
Director, State Regulatory Affairs

cc: Simon ffitch
Sheree Carson