

May 15, 2015

VIA ELECTRONIC FILING

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

RE: Docket A-150561—Comments of Pacific Power & Light Company

Pacific Power & Light Company, a division of PacifiCorp (Pacific Power or Company), submits the following comments in response to the Washington Utilities and Transportation Commission's (Commission) Notice of Opportunity to File Written Comments (Notice) issued April 20, 2015, in Docket A-150561.

The Notice encourages stakeholders to submit comments on a set of issues and questions listed in the Notice. Pacific Power's responses below reflect data from calendar year 2014.

Costs and Benefits to the Company and Other Customers

- 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?**

Pacific Power uses a third party, Western Union, to process all debit and credit card transactions for customers making payments by telephone using the Company's interactive voice response (IVR) system. Additionally, the Company includes card processing as a payment option in its mobile app that is available for iOS and Android devices as of April 2015. Card processing will also be added to the Pacific Power website in June 2015.

Western Union charges customers who pay by credit or debit card a fee to process the payment. Residential customers are charged \$1.95 for each payment of up to \$600 and non-residential customers pay \$4.95 for each payment of up to \$5,000. Customers are allowed five card payments within a 30-day period through Western Union.

In addition, the Company incurs approximately \$14,000 per year in administration and vendor management costs to support debit and credit card processing.

- 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**

Please see Attachment 1. Internal transaction costs reflect the total administration, banking, and/or vendor expenses divided by the number of transactions for that specific payment channel and are shown in the column titled "Internal Transaction Costs" on Attachment 1.

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

Please see Attachment 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.**

Please see Attachment 1 for the average cost to support and process a transaction. Pacific Power does not track average bill amounts for each type of payment method. As a basis of comparison, an average Washington residential bill is \$116.

- 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?**

All customers are expected to pay their utility bills; however, they have choices in their method of payment. Before common use of credit and debit cards, and certain automated technology, customers traditionally either used local payment locations or US Mail to pay utility bills. A certain level of costs is included in rates to recognize these basic payment options.

Technological advances, such as online banking and mobile device apps, and proliferation of debit card use are making it easier and more convenient for customers to pay utility bills without using basic payment service options such as US Mail, writing paper checks, or even leaving their homes. This convenience comes with additional fees, largely associated with use of certain payment

channels such as credit and debit cards. More customers are migrating to these convenient payment methods, although traditional payment methods without fees are available and continue to be used. Because of the notable difference in cost for traditional payment methods, Pacific Power customers using the payment methods with higher fees are paying the fees rather than having the costs included in rates.

Pacific Power offers five local payment locations where customers may make cash or check payments without a fee for processing payment. Pacific Power also offers local payment locations where customers may make cash or check payments for a vendor-charged fee. Additionally, Pacific Power customers who pay bills by phone or through the mobile app are assessed a fee for card payments by the payment processing vendor. Costs for all other currently available payment channels are included in rates.

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?

Pacific Power currently has a fee-based card option as a convenient payment method for customers.

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?

Advantages to having card payments processed by a third party include no system build-out to process cards, Payment Card Industry Data Security Standard (PCI) compliance is not a requirement for the Company, fraud detection and alerts, dispute management and chargebacks are supported by the third party. Disadvantages are that the Company does not have control over the usability of the vendor's user interface and limited influence over the design of the card program offering.

When Pacific Power initiated the program for debit and credit cards, it used a formal competitive bidding process to select the third-party vendor. No banks or third-party card processors were excluded from responding. The Company's determination to use a third-party card processor rather than a bank was based on an objective evaluation of services being provided and cost.

The only other alternative available to the Company would be to process cards in-house. To do this, the Company would need to implement a number of changes such as system changes to process cards, PCI compliance, and fraud detection programs. The Company has not fully analyzed the costs of bringing card

processing in-house because of the extensive system modifications and costs to implement and support PCI regulations.

The Company, however, has estimated the costs to move forward with a third party card processor without customer-paid fees. It would cost the Company approximately \$1.6 million to implement system changes and limited PCI regulations, plus additional on-going annual maintenance and support costs of approximately \$200,000, plus vendor transaction fees.

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?

Pacific Power's current debit and credit card payment streams are set up so the customers who benefit from the convenience of using the cards pay for the associated additional costs. Because there are additional fees imposed by major card brands for payments that are not associated with other pay channels, a mechanism for immediate cost recovery would be needed if these fees are not paid by the customer at the time of payment.

The costs to process card payments are difficult to stabilize for several reasons: 1) costs can vary depending on the number of customers using a card to pay their bill, the amount of their bill, and the type of card used within a given month; 2) card regulations have been in a state of flux over the past several years, and legislation has not proven to offer much costs stability for merchants who process card payments; and 3) billing agent companies, such as CASS Systems, can disrupt the consistency of fees being paid for card processing by shifting from a less-expensive ACH option to a more expensive card option to pay their customer's bills. This potential for fluctuation imposes risks for costs not being known and measurable, which may make fee collection from customers paying with debit or credit cards the most viable option.

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?

Visa regulations prohibit charging customers a fee to process an automatic payment, and therefore this is not an option under Pacific Power's current card payment processing model. As a result, Pacific Power has not fully researched

the advantages and disadvantages automatic credit and debit card payments would provide its customers. However, one advantage would be convenience for the customer.

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?**

If the Company identifies a billing or metering error and corrects the billing within 48 hours from the payment drafting, the adjusted amount will be drafted from the customer's account. If the bill is corrected after the payment is drafted, customers are notified of the adjustment via a letter or their billing statement and the adjustment is applied to the customer's monthly bill. A customer who wishes to receive a refund may request a refund check. Pacific Power does not have the capability to apply credits or refunds directly to a customer's checking account.

- 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.**

Unbanked customers may pay their Pacific Power bills using cash, money orders, pre-paid credit cards, or pre-paid debit cards. However, Pacific Power's payment processing vendor will only accept pre-paid credit and debit cards if the cards have the MasterCard or Visa logo.

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

No, they are processed in the same manner as any credit or debit card.

- 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?**

Because of the significant costs and the complexities involved with the PCI requirements and regulations, Pacific Power is not interested in undertaking its own credit card processing. If Pacific Power were to provide this service, the Company would be required to follow all PCI regulations to ensure customer card information is protected and to avoid a data breach. PCI standards provide a framework for developing a robust payment card data security process—including fraud prevention, fraud detection, and appropriate reaction to security incidents. Annual audits would also be required to be compliant with PCI regulations.

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Pacific Power appreciates the opportunity to provide these comments and looks forward to participating in the workshop scheduled for June 9, 2015. If you have any questions regarding these comments, please contact Barb Coughlin, Director, Customer & Regulatory Liaison, at (503) 331-4306.

Sincerely,

A handwritten signature in black ink that reads "R. Bryce Dalley" followed by a date "1/2015". The signature is written in a cursive, flowing style.

R. Bryce Dalley
Vice President, Regulation

Enclosures

Pacific Power
2014 Payment Transactions – Washington Only

Payment Channel	Annual Payment Counts (Washington only)	Annual Payment Dollar Totals (Washington only)	Customer Fees Charged by Vendor (per payment)	Internal Transaction Costs (per payment)
Mailed payments (customer pays return postage)				
<i>Check or Money Order</i>	484,557	\$184,563,683	No fee	\$ 0.24
Drop box payments				
<i>Check or Money Order</i>	Included with Mailed Payments (above)			
Automated paystations				
<i>Cash, Check, or Money Order</i>	249,666	\$33,930,334	\$1.50/ transaction (except five free paystations)	\$ 0.14
Automatic payments (online and paper enrollments)				
<i>Bank account</i>	128,197	\$17,446,272	No fee	\$ 0.11
Online payments (one-time payments)				
<i>Bank account</i>	164,040	\$27,584,839	No fee	\$ 0.09
Bank website payments and electronic data interchange (EDI) payments				
<i>Electronic Funds Transfer</i>	177,849	\$92,140,932	N/A	\$ 0.05
Phone payments				
<i>Bank account</i>	9,239	\$2,063,145	\$1.95 residential payment/max \$600 \$4.95 non-residential payment/ max \$5000	\$ 0.01
<i>Debit cards</i>	25,435	\$4,027,961		\$ 0.01
<i>Credit cards</i>	53,126	\$9,910,270		\$ 0.01
Field collector--\$15 Schedule 300 fee				
<i>Cash, Check, or Money Order</i>	2,027	\$303,127	N/A	Not tracked