

# Response to WUTC Data Requests to Docket A-150561 (Payments)

Questions from Christopher Hancock, WUTC Staff, 5/18/15 email

1. You noted in your comments that Visa does not allow you to implement a surcharge on customers paying with Visa cards; are surcharges applied to Discover and MasterCard customers, and if so, are these applied by NW Natural or by the processing third-party?

The Company does not surcharge any customer that pays by bankcard, regardless of the card brand (Visa, Master Charge or Discover). It may be of interest to note that Visa accounts for roughly 85% of the transactions' Master Charge is about 14%, and Discover is about 1%.

2. How do you allocate these costs between Oregon customers (where you can recover your costs), and Washington customers (where you currently cannot)?

The Company separately tracks and monitors Oregon and Washington customer credit card usage. In Oregon, with the Company's last Oregon general rate case (UG 221), the Commission approved the inclusion of \$1.3 million (a revenue requirement of \$1.05 million) in customer rates for the fee-free credit card payment option. This amount was premised upon an anticipated credit card usage level of 15% over a 2-3 year period.

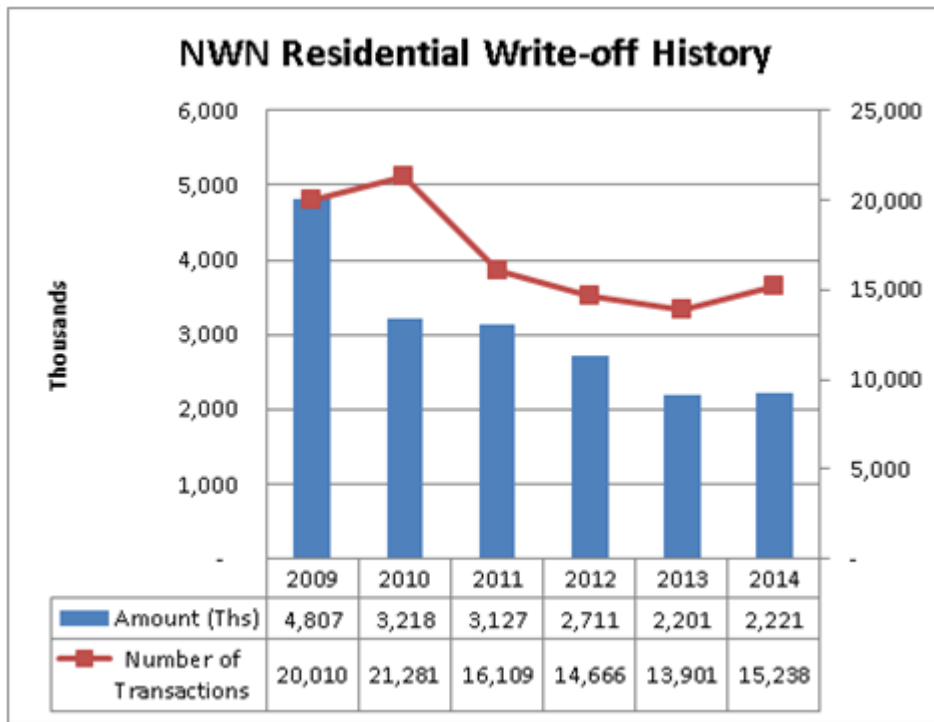
The Company does not currently directly allocate actual costs associated with the fee-free card program between states.

3. Referring to the bottom of Page 3 In what sense were customers that used cards in the prior arrangement (\$3.95 fee) considered "at-risk"? Have you seen a reduction in uncollectable and bad debt?

This statement was based upon a review of historical residential payment data (pre-2011 data) that we did as part of the UG 221 Oregon rate case. The Company reviewed the various payment types and the relationship of the payment type to delinquent payments. The data indicates that there was a higher relationship to delinquent payments and the use of a bankcard as the payment option than with other payment types (with the exception of payments made at a paystation). See the table below:

Payment Type (System Data)	2008 (counts)	2009 (counts)	2010 (counts)
Bank Card Payments	115,891	124,732	135,489
Total Delinquent Payments	30,280	31,358	30,999
Delinquent Payments as % of PayStation Payments	26.1%	25.1%	22.9%
Pay Station Payments	86,272	84,838	75,288
Total Delinquent Payments	22,630	21,146	17,722
Delinquent Payments as % of PayStation Payments	26.2%	24.9%	23.5%
All other Payment Channels	6,940,321	6,627,651	7,183,158
Total Delinquent Payments	233,615	230,900	206,657
Delinquent Payments as % of	3.4%	3.5%	2.9%

We have seen a decrease in write-offs since the recession of 2009. However, a lot of factors likely contributed to the decrease (many of which occurred prior to the bankcard fee change), including lower billing rates, improved economy, and weather variations. Below is a chart that shows NW Natural's write-offs for the last 5 years. Although the chart does indicate a drop in write-offs between 2012 and 2013, the first year after the fee change, this is also a time where residential rates dropped by about 8.5%. As such, it is not possible to state with any certainty if or to what degree the fee-free credit card program had on this decrease.



4. **Other utilities have told me that they are unable to get the utility rate on card processing, but it seems you have. Could you describe what it takes for a utility to qualify for this?**

According to our merchant bank representative, he indicates that to qualify for the utility rate, the merchant (e.g., NW Natural) must be a utility, as defined by Standard Industrial Classification (SIC), and that no fee may be assessed to any consumer served by that utility.

5. **Does the company feel that customer usage of debit and credit cards has stabilized at 14%, or is there the expectation that this trend towards card usage will only continue?**

Prior to proposing to offer bankcard payments without a fee to consumers, NW Natural conducted a survey to determine what the adoption rate was for utilities that had already adopted a similar model. The sample was small but the reported range was 9% to 12%. Those utilities also included some restrictions, like offering only to residential or requiring e-bill. Based on this data, we concluded that 15% was a reasonable market adoption rate. Today we are at 13.8%, a constant percentage for each month so far this year. Our two and one-half year history indicates that increased bankcard use occurs during the early part of the year and then stays fairly constant. We still anticipate that customer preference will continue toward bankcards and that we will reach or exceed a 15% adoption rate over time.

6. In 2005, 73% of NW Natural’s customers paid with check, compared to less than 30% in 2014. Meanwhile, NW Natural saw card usage increase from 2% in 2012, to 14% in 2014. Which is to say, many customers have moved away from checks and towards credit and debit cards, but certainly not all of the customers that abandoned checks have chosen cards. What other methods have those check-paying customers moved into, as they abandoned using checks?

Response: First, a correction to our original response. We should have said that from 2005 to 2014 mailed payments dropped from 70% to 30% and that bankcard use from 2012 to 2014 increased from 3% to almost 11%, and year-to-date 2015 is almost 14%.

Looking at the period 2015 – 2012, a time in which NW Natural made no changes in its payment channels - one can see the effect in consumer payment preferences. During this period of time mailed payments dropped from about 70% to 34.8% while ACH payments went up from 14.4% to 26.7%, auto pay up from 10.3% to 20.8% and electronic checks up from 4.2% to 13.1%. Even bankcard payments, with a fee, increased from 0.9% to 2.9%. Clearly, the trends show that consumers are moving away from the traditional mailed payment in favor of various electronic methods.

Looking at the period since offering the free bankcard payment option (2012 – 2014), mailed payments have continued to decline as customers continue to move to electronic methods. Bankcard payments have accelerated from 2.9% to 10.7% and auto pay has increased also – from 20.8% to 22.2%. The two electronic channels where volume has slightly declined are electronic checks (down 26.7% to 26.1%) and ACH (down 26.7% to 26.1%). Without studying payment data, it seems reasonable that the loss in mail volume is continuing to move to any one of the electronic channels but there is also movement within the electronic channel to the bankcard since that option no longer incurs a fee.

The table below recaps payment trends before and after implementation of the free bankcard payment option.

SYSTEM	2005		2012		2014	
	Count	%	Count	%	Count	%
Payment Channel						
Retail Lockbox (mail)	4,680,339	70.2	2,356,156	34.8	2,255,144	29.9
Bankcard (1-time & Auto Pay)	60,356	0.9	195,867	2.9	810,982	10.7
Check /Saving Auto Pay	686,021	10.3	1,412,535	20.8	1,673,539	22.2
One-Time Electronic Checks	277,641	4.2	889,338	13.1	735,677	9.7
ACH – 3 <sup>rd</sup> Party	960,118	14.4	1,812,216	26.7	1,968,766	26.1
Other (1)			109,810	1.6	102,273	1.4
All Payment Channels	6,664,475	100.0	6,775,922	99.9	7,546,381	100.0

(1) Other includes field collections, energy assistance, collection agencies, drop box and wire payments. These payment types are included in Retail Lockbox for the year 2005.

7. Aside from the Oregon PUC, and your anticipated efforts at collecting costs in your future Washington rate case, did NW Natural encounter any other regulatory burdens in the process of adopting a no-fee model for card usage?

NW Natural has not encountered any opposition to the inclusion of these costs in customer rates from the Oregon Commission, its Staff, consumer advocates, or any other parties to the UG 221 rate case proceeding, either during or following the conclusion of that docket. That said, as noted in the response to item 2, above, the Company could face regulatory hurdles in the future should the collective costs associated with the use of bankcards as a payment option exceed the amount currently covered in customer rates.