

**Summary of Comments**  
**Docket A-150561**  
**Inquiry into credit and debit card payment options**

On April 20, 2015 the Washington Utilities and Transportation Commission (commission) issued a Notice of Opportunity to File Written Comments in Docket A-150561. These comments were due May 15, 2015, in preparation for a workshop on June 9, 2015. The purpose of staff's investigation is to investigate current utility and transportation industry practices regarding credit and debit card payments by customers, and to reevaluate the regulatory framework surrounding these payments. Respondents were asked to answer several questions related to their current practices and their desired regulatory framework.

Comments were received from the following parties: Washington Water Service Company; RTI Pend Oreille Telephone; Here2There, Inc. (dba Two Men and a Truck); CenturyLink; Avista Corporation; Public Counsel; Northwest Natural Gas Company (NW Natural); Cascade Natural Gas Corporation; Washington Refuse & Recycling Association (WRRRA); Puget Sound Energy (PSE); and, Pacific Power & Light Company (Pacific Power).

**1. Current practice:**

As a general observation, firms in the more competitive industries under commission purview do not directly charge credit and debit card customers a convenience fee, whereas energy utilities do.

As an example, CenturyLink, a telecommunications company that has been minimally regulated under an Alternative Form of Regulation since 2007, doesn't directly charge a convenience fee to those customers paying with a debit or credit card, whereas PSE does. NW Natural is the only energy utility that does not directly charge its customers for card fees – a practice they recently started - and is primarily due to its ability to recover these costs in Oregon, where the vast majority of their customers reside. NW Natural has stated their intention to seek recovery of the Washington share of these costs in their next Washington rate case.

All of the companies that submitted comments contract through third-party payment processors to handle credit and debit card transactions (and often, one-time Automated Clearing House [ACH] transactions). These third-party agents are able to specialize in compliance with federal consumer protection and financial regulations, and industry standards such as those set by the Payment Card Industry Security Standards Council. In exchange for performing these functions, the third-party payment processor collects a direct convenience fee from the customer. These contracts are put out for competitive bidding by the utility. In these contracts, final costs per transaction are often determined by considering the average payment size expected, the largest payment size allowed, payment frequency, and number of customers expected to pay by card. When utilities agree to lower the maximum payment size allowed, they can usually achieve a lower cost for each transaction.<sup>1</sup>

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<sup>1</sup> Compare PSE and Pacific Power's cap, at \$600, to Avista's, at \$3,000. PSE has a convenience fee of \$2.00, and Pacific Power's is \$1.95, whereas Avista's is \$3.50.

## 2. Desired practice:

With the possible exception of Pacific Power,<sup>2</sup> all energy utilities, and Public Counsel, are interested in recovering the costs of processing credit and debit cards as an operating expense through the companies' revenue requirement. Several reasons are given for this position:

- Customers expect the ability to pay by several methods without incurring fees, and the inability to do so with this method is an area in which customers consistently express frustration.
- Many customers use other utilities that do not have this practice.
- Debit and credit card usage is increasing nationwide and statewide.
- Unlike credit and debit cards, costs of other payment methods, and of billing, are borne by all customers (e.g. costs traditional payment methods such as cash and checks, are typically included in revenue requirement calculations and borne in service rates charged to all customers).
- These fees disproportionately affect unbanked customers, who tend to be of lower means.
- Further adoption of credit and debit card payments may have knock-off effects, such as reduced remittance times, reduced costs related to delinquent payments, and further uptake of paperless billing.
- Customer satisfaction would likely rise.
- The costs associated with collecting payments of all types are an inherent cost of business.

CenturyLink does not charge customers a convenience fee for using debit or credit cards, but expressed interest in doing so. CenturyLink's credit and debit card payments are its second highest-cost payment methods, behind cash payments. Credit and debit card payments are likely to be one of the higher-cost payment methods for all utilities, but not necessarily the highest cost. PSE is an instructive case, explained below in the following section.

Utility companies may also be able to achieve lower costs by meeting some conditions set by card companies themselves that would allow the utility to qualify for what is known as "the utility rate." The "utility rate" is a discounted processing charge levied by a card company to a utility when processing costs are embedded in service rates rather than through a separate convenience charge directly applied to specific customers.<sup>3</sup> Therefore, as long as utilities assign the convenience fees directly to card-using customers, this condition will not be met and a utility will not get the benefit of a lower "utility rate". Embedding third-party payment processing costs in utility service rates may allow utilities to achieve this discounted "utility rate" from card companies and can satisfy the credit and debit card companies' desire for parity, from their

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<sup>2</sup> Pacific Power's comments on this matter focused on the rationale for their current practice, and emphasized concerns over cost certainty. The company did not reject the idea of including card processing costs in rates.

<sup>3</sup> Northwest Natural Gas, *Response to WUTC Data Requests to Docket A-150561 (Payments)*, May 18, 2015

perspective, in direct costs to their cardholders.<sup>4</sup> Further assurances from credit and debit card companies, and the payment processors, should be received on this matter.

Staff has not estimated the bill impact of incorporating credit and debit card processing costs into the revenue requirements formula, as this would vary depending on the contractual arrangements achieved by the utilities and their payment processors. Furthermore, these contractual arrangements would likely change if utilities were able to recover these costs through rates – a chicken-and-egg problem of sorts. However, the Vermont Department of Public Service estimated in a 2012 report<sup>5</sup> that doing so would result in a \$0.50 to \$1.75 increase to customers' bills over the entirety of a year.<sup>6</sup> NW Natural proposed an uncontested revenue requirement increase of \$1.05 million (\$1.56 per customer, per year) in its recent Oregon rate case for recovery of these costs.<sup>7</sup>

Several parties also made clear their desire for the commission to define the degree to which cost-causation principles should be applied to payment methods.

### **3. Trends in credit and debit card usage:**

Utilities have all experienced an increase in customers using debit and credit cards, despite these convenience fees, as part of a broader move by customers towards electronic payment methods. This comes at the expense of traditional methods such as paper checks and cash payments. The 2013 Federal Reserve Payments Study,<sup>8</sup> commissioned by the U.S. Federal Reserve System, observed this trend nationwide:

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<sup>4</sup> Puget Sound Energy, phone discussion with Nate Hill, Regulatory Affairs Initiative Manager, June 2, 2015

<sup>5</sup> State of Vermont, Department of Public Service, February 21, 2012,

[http://publicservice.vermont.gov/sites/psd/files/Pubs\\_Plans\\_Reports/Legislative\\_Reports/Utility\\_Bill\\_Payment.pdf](http://publicservice.vermont.gov/sites/psd/files/Pubs_Plans_Reports/Legislative_Reports/Utility_Bill_Payment.pdf)

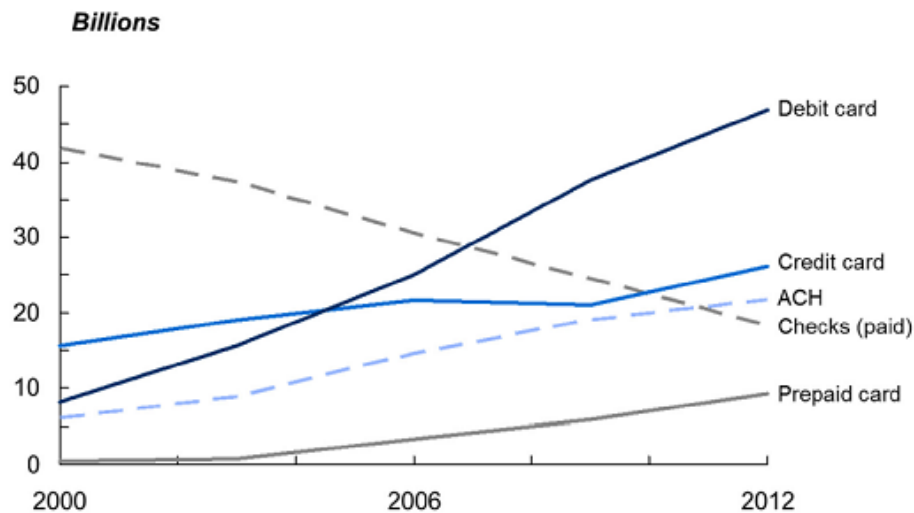
<sup>6</sup> This estimate is based in part on assuming that utilities would contract payment processing functions through local banks, an approach that Washington's utilities are not comfortable with because of the financial and consumer protection regulatory issues noted in Section 1 of this document.

<sup>7</sup> Phone call with Onita King of NW Natural regarding Oregon PUC docket UG 221.

<sup>8</sup> U.S. Federal Reserve System,

[https://www.frbervices.org/files/communications/pdf/general/2013\\_fed\\_res\\_paymt\\_study\\_detailed\\_rpt.pdf](https://www.frbervices.org/files/communications/pdf/general/2013_fed_res_paymt_study_detailed_rpt.pdf)

**Exhibit 1: Trends in noncash payments 2000-2012, by number and type of transaction**



(Federal Reserve, 2013 *Federal Reserve Payments Study*, p. 14)

Some of the customer interest in using credit cards is due to incentive programs sponsored by the card companies, such as airline miles or “cashback” programs. It is important to understand this as a driver of customer interest in this arena, and not necessarily as a driver of costs per transaction to the companies that process these cards. Nonetheless, companies that socialize these costs see their *total* costs incurred by processing credit and debit cards increase due to the broader trend of card usage by customers, in addition to the reduction in direct fees incurred by the customer. Incentive programs by credit card companies are one of many reasons why credit card usage has increased, but as evidenced by the graph above, it is clear that there is a broad drive towards all types of electronic payment methods, not just credit cards.

Customers’ adoption of these electronic payment methods show little sign of stopping. As more customers move away from traditional payment methods, the fixed costs of processing those traditional methods are spread over fewer and fewer transactions. This phenomenon is already manifesting itself at PSE, where the total cost to customer and company for processing payments through its Business Offices<sup>9</sup> already exceeds that of processing credit and debit cards.

#### **4. Cost-causation with respect to payment methods:**

The principle of cost-causation has not been applied to most payment methods. As previously stated, the costs of processing cash, paper check, money order, and recurring ACH payments, and the costs for billing all customers, are not recovered by specific charges defined by the principal of cost-causation. Comparably, customers who choose paperless billing receive no

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<sup>9</sup> These brick-and-mortar business offices are mandated by WAC 480-100-188 and 480-90-188, which read: “*The... utility must provide payment agencies in locally accessible locations where applicants and customers can make payments at no charge to the applicants and customers. Payment agencies must clearly post and maintain regular business hours.*”

direct benefit from their cost-saving choices, and effectively subsidize those customers that do choose to receive paper bills. Nonetheless, energy utilities have shied away from attempting to recover the costs of credit and debit card processing because of the uncertainty involved.

Utility companies are hesitant to incur the credit and debit card processing costs prior to requesting recovery through rates, on the chance that the recovery of those costs will be disallowed. Removing the convenience fees to card users only to reintroduce the practice after being denied recovery through rates would likely displease customers, so the status quo remains in place. It is perhaps more appropriate to consider utilities' practices to date to be motivated not by conformance to cost-causation principles, but rather by assurance of recovery of the costs the utilities expect to incur.<sup>10</sup>

Companies have stated that a change in practice would likely occur during a rate case.<sup>11</sup>

#### **5. Matrix of parties' positions:**

Below is a matrix summarizing commenting parties' positions on particular issues. A black box indicates that the party did not address the matter, or that it is not applicable to that party.

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<sup>10</sup> Cascade Natural Gas comments, page 4, May 15, 2015

<sup>11</sup> Cascade Natural Gas comments, page 4, May 15, 2015

Issue	Organization	Stance
The commission should make clear its stance on cost-causation with respect to payment methods.	Avista Corp	Yes
	Cascade Natural Gas	
	CenturyLink	
	NW Natural Gas	
	Pacific Power	Yes
	Public Counsel	Yes
	Puget Sound Energy	Yes
	RTI Pend Oreille Tel.	
	Two Men & A Truck	
	Wash. Water Srvc Co.	
	WRRRA	
Costs of processing credit and debit card transactions should be socialized and recovered through the revenue requirements formula as an operating expense, as are the costs of other forms of payment.	Avista Corp	Yes
	Cascade Natural Gas	Yes
	CenturyLink	
	NW Natural Gas	Yes
	Pacific Power	Unsure
	Public Counsel	Yes
	Puget Sound Energy	Yes
	RTI Pend Oreille Tel.	
	Two Men & A Truck	
	Wash. Water Srvc Co.	Yes
	WRRRA	Yes
Are your customers currently charged a processing fee for payments via debit and credit cards? If so, how much is it?	Avista Corp	\$3.50
	Cascade Natural Gas	\$3.50
	CenturyLink	No
	NW Natural Gas	No
	Pacific Power	\$1.95
	Public Counsel	
	Puget Sound Energy	\$2.00
	RTI Pend Oreille Tel.	No
	Two Men & A Truck	No
	Wash. Water Srvc Co.	No
	WRRRA	
Internalizing the card processing function, instead of contracting through a third-party payment processor, would require the company to meet Payment Card Industry regulations that would be cost-prohibitive to meet.	Avista Corp	Yes
	Cascade Natural Gas	Yes
	CenturyLink	Yes
	NW Natural Gas	Yes
	Pacific Power	Yes
	Public Counsel	
	Puget Sound Energy	Yes
	RTI Pend Oreille Tel.	
	Two Men & A Truck	
	Wash. Water Srvc Co.	
	WRRRA	