

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of	)	
	)	Docket No. UE-16-_____
PUGET SOUND ENERGY	)	Docket No. UG-16-_____
	)	
For an Order Authorizing Accounting and Ratemaking	)	PETITION OF
Treatment of Fees for Payments Made by Residential	)	PUGET SOUND ENERGY
and Small-Business Customers	)	

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**I. INTRODUCTION**

1           In accordance with WAC 480-90-203(3) and WAC 480-100-203(3), Puget Sound Energy (“PSE” or the “Company”), hereby petitions the Commission for an Order authorizing the accounting and ratemaking treatment detailed in this Petition related to costs the Company will incur by offering a fee-free payment program for its residential and small-business customers to pay by any method, including credit and debit cards.

2           PSE is a combined electric and natural gas utility serving more than one million electric customers and approximately 770,000 natural gas customers in Western Washington.

3           All correspondence related to this Petition should be directed as follows:

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4           Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040, RCW 80.28.020, and WAC 480-07-370(1)(b).

## II. SUMMARY OF PETITION

5 PSE requests Commission approval to defer, for later recovery in rates, the costs incurred  
to offer a fee-free payment program for its residential and small-business customers, including  
customers who pay with a credit or debit card. In 2015, PSE customers made a total of  
1,296,639 payments by credit or debit card that were subject to a payment fee to FISERV, a  
third-party bank card processing service. PSE customers paid over \$2.5 million in 2015 in  
“convenience fees” to FISERV to pay their PSE energy bill using a credit or debit card. PSE  
receives no portion of this fee.

6 Customer expectations have changed, as more and more customers prefer electronic  
payment options. In response to this change in customer preference, most utility companies  
are now offering customers fee-free payment programs for all methods of payment. PSE  
believes it is reasonable to offer a fee-free payment program for all payment methods to its  
residential and small-business customers, including payment by credit or debit card.

7 The Company proposes to recover the costs associated with this program from all  
customers through base rates. Customer payments made by all other payment mechanisms  
including bank transfer, check, Automated Clearing House (“ACH”) transaction, or cash are  
all free of charge. The only payment method where the costs are not borne by all customers,  
and where customers pay an additional fee, is payments using a credit or debit card.

8 Customers currently pay a \$2.00 convenience fee to FISERV per transaction when using  
a credit or debit card to pay their energy bill. If PSE were to pay the costs of card payments  
on behalf of its residential and small-business customers, the cost per transaction would be at a  
much lower rate as the major card networks (i.e., Visa and MasterCard) offer a utility pay  
program where processing costs are much lower. With this model, PSE anticipates the cost to

be approximately \$1.50 per transaction. Thus, by paying the transaction costs and distributing the costs through rates, PSE can significantly lower the transaction costs for its customers.

9 Absent a Commission order allowing for the deferral and recovery of these costs, it is unclear whether the Commission would allow the recovery of these costs in base rates. Therefore, the Company would not otherwise offer a fee-free payment program to its residential and small-business customers as it could result in a loss to the Company and its shareholders.

### III. BACKGROUND

#### A. Summary of PSE Payment Methods and Trends

10 PSE offers a variety of payment methods to customers including cash, check, and electronic payment methods in the form of debit, credit, and prepaid bank cards,<sup>1</sup> or ACH transactions.<sup>2</sup> Customers can mail in their payment, walk into one of PSE's business offices or pay stations, visit the PSE website, pay through their bank if available, or pay through other third-party online payment processing service.

11 PSE processed over 15 million transactions in 2015 for a total of \$2,973,102,229 in revenue. Table No. 1 breaks down PSE customer transactions by payment type in 2015:

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<sup>1</sup> Debit, credit, and prepaid bank cards are collectively referred to as "bank cards" in this petition.

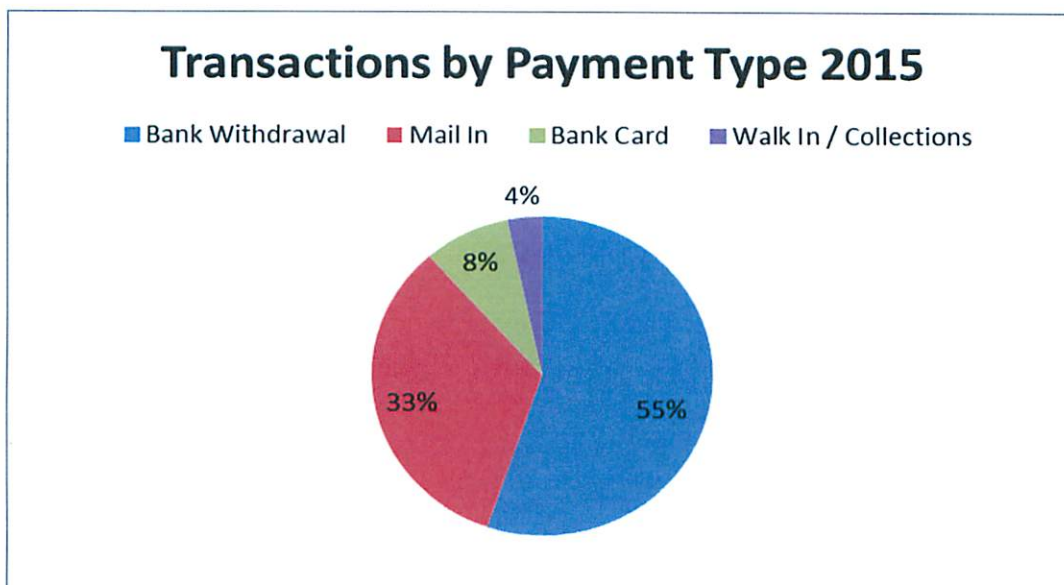
<sup>2</sup> The ACH Network moves money and information from one bank account to another through Direct Deposit and Direct Payment via ACH transactions. *What is ACH?: Quick Facts About the Automated Clearing House (ACH) Network*, NACHA (Oct. 1, 2015), [www.nacha.org/news/what-ach-quick-facts-about-automated-clearing-house-ach-network](http://www.nacha.org/news/what-ach-quick-facts-about-automated-clearing-house-ach-network).

TABLE NO. 1

<b>Transactions and Revenue by Payment Type 2015</b>			
	<b>Transactions</b>		<b>Revenue</b>
Bank Withdrawal	8,697,183	\$	1,275,839,895
Mail In	5,241,509	\$	1,369,680,616
Bank Card	1,296,639	\$	206,414,117
Walk In / Collections	524,184	\$	121,167,602
<b>Total</b>	<b>15,759,515</b>	<b>\$</b>	<b>2,973,102,229</b>

12 Chart No. 1 illustrates PSE customer transactions by payment type in 2015. Including bank cards and bank withdrawal, 63 percent of PSE’s payment transactions were electronic for a total of 9.9 million transactions, resulting in \$1.48 billion in revenue:

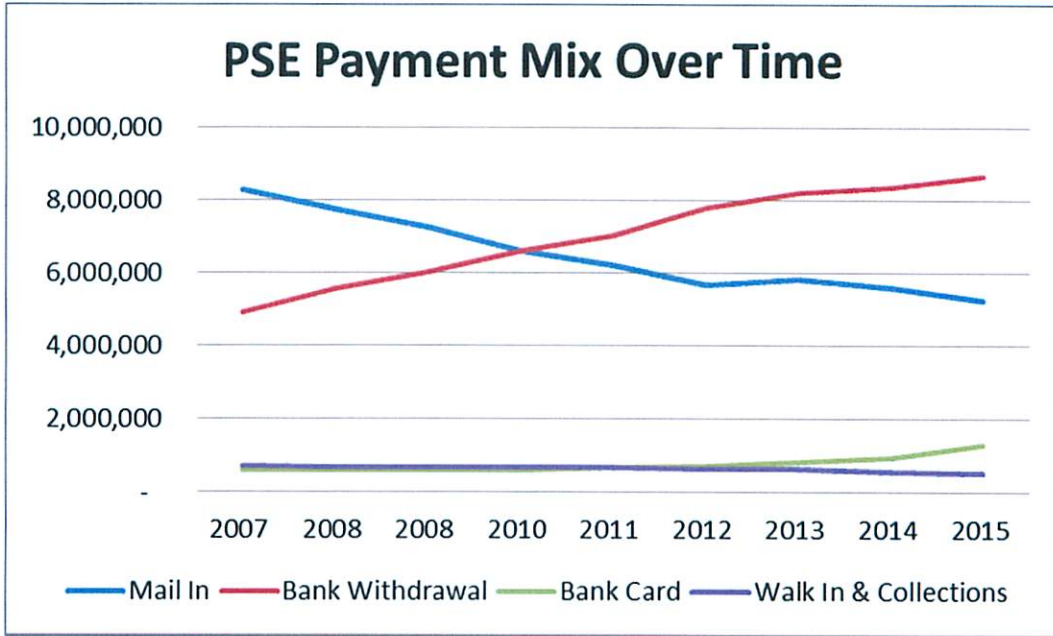
CHART NO. 1



13 PSE has accepted non-cash/non-check payments in the form of electronic payments, such as ACH and debit or credit card payments for over 10 years. Over this period, PSE has seen steady growth in these payment channels as PSE’s customers, and society at large, increasingly prefer non-cash/non-check payments as their primary method for making

payments. As shown in Chart No. 2, for PSE customers, electronic bank withdrawal methods surpassed mail-in payment options in 2010, and electronic payment methods in general, including bank cards, are increasing:

CHART NO. 2



14 Table No. 2 below shows the trend in payment amounts on a percentage basis for PSE customers. Mail-in represented 57 percent of all payments in 2007, but only 33 percent in 2015, while electronic payments including bank cards and bank withdrawal grew from 38 percent to over 63 percent in 2015.

TABLE NO. 2

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Mail In	57%	53%	50%	46%	43%	38%	38%	36%	33%
Bank Withdrawal	34%	38%	41%	46%	48%	52%	53%	54%	55%
Bank Card	4%	4%	4%	4%	5%	5%	5%	6%	8%
Walk In & Collections	5%	5%	5%	5%	5%	4%	4%	4%	3%

15 Of those electronic payment methods, bank cards show the highest growth rate. Table No. 3 shows the Compound Annual Growth Rate (“CAGR”) for each payment channel for

PSE over the nine year period. The CAGR for bank cards increased 11 percent during that time.

**TABLE NO. 3**

<b>Compound Annual Growth Rate (CAGR) from 2007 to 2015</b>	
Mail In	-6%
Bank Withdrawal	7%
Bank Card	11%
Walk In & Collector	-4%

16 As summarized in Table No. 4 below, bank card usage grew to eight percent of PSE’s payment mix in 2015 compared to five percent of the mix in 2013. This is largely due to a change in the amount of the payment fee charged to the customer to use a bank card. In June 2014, PSE negotiated to reduce the payment fee to use a bank card from \$4.95 to \$2.00 per transaction. This stimulated the usage of bank cards as a payment option with a 37 percent increase from 2014-15 as consumers discovered the reduced cost of this option as more affordable.

**TABLE NO. 4**

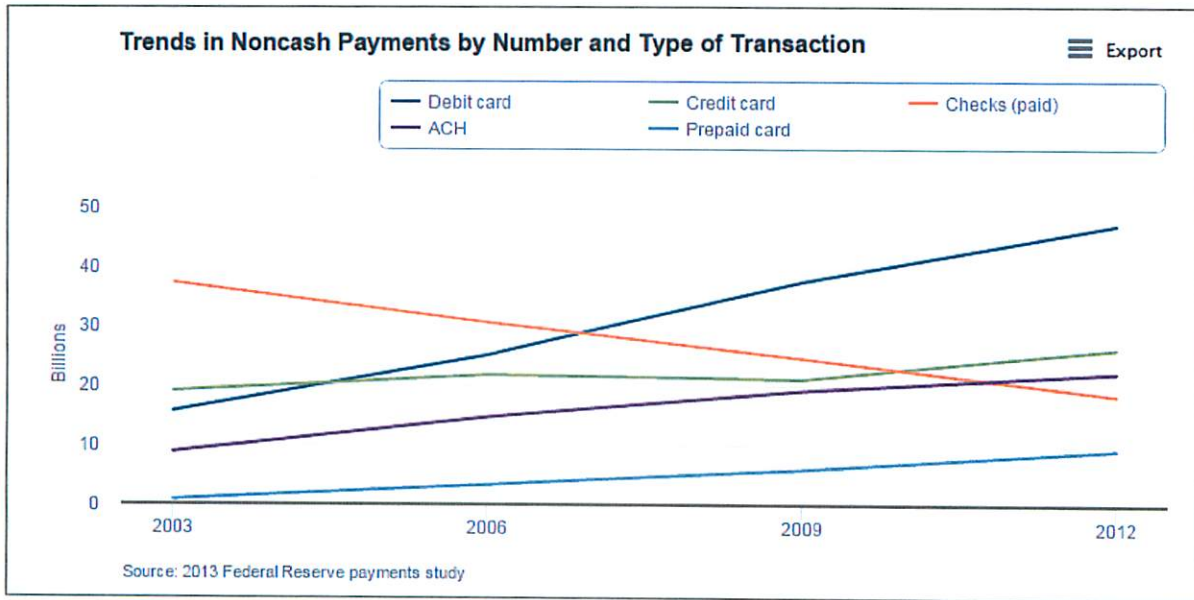
<b>Bank Card Transactions from 2012 to 2015</b>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Card Transactions	733,196	818,384	943,474	1,296,639
Percent of Payment Mix	5%	5%	6%	8%
Growth Rate	9%	12%	15%	37%

**B. General Trends in Bank Card Usage**

17 PSE customer trends of increasing bank card usage mirrors broad national consumer trends. A 2013 Federal Reserve payments study finds that credit and debit card usage

significantly increased nationally as shown in Chart No. 3 below.<sup>3</sup> Consumers are clearly increasing their use of bank cards across all purchases.

CHART NO. 3



18 The option of a fee-free payment when using a bank card will lead to greater satisfaction for all customers that primarily pay for goods and services with these payment methods. In particular, the millennial generation born between 1985 and 2004 expect mobile and card payment options. Mobile bill pay grew from six percent in 2011 to 27 percent in 2014 with 50 percent of the transaction being a card payment.<sup>4</sup> In addition, a 2013 study by Western Union shows that millennials are 13 percent more likely to make a debit card payment and 10 percent more likely to make a credit card payment than all other bill payers.<sup>5</sup>

19 There are many reasons why customers prefer to use their bank card, including 1) convenience of always having a bank card on hand; 2) safety of not carrying cash; 3) not

<sup>3</sup> *How We Pay: Results from the Federal Reserve's Payments Study*, FEDERAL RESERVE BANK OF ATLANTA (Aug. 20, 2015), <https://www.frbatlanta.org/economy-matters/2015/08/20/payments-study>.

<sup>4</sup> *Seventh Annual Billing Household Survey*, FISERV. (Dec. 15, 2014), <http://newsroom.fiserv.com/releasedetail.cfm?ReleaseID=887655>.

<sup>5</sup> *The Western Union® Bill Payments Money Mindset Index*, WESTERN UNION (Sept. 2013), <http://payments.westernunion.com/mobilemindsetindex>.

having to have a printed check to set up bank withdrawal or to pay a bill while mobile or away from home; 4) budget management; 5) immediacy of electronic payment posting; and 6) arranging automatic payments on their bank cards. PSE customers have the same growing expectation to be able to use bank cards whether they pay PSE, their cellular telephone bill, or their cable bill.

**C. Bank Card Costs For PSE Customers**

20 As explained above, PSE uses a third-party payment processor, FISERV, for multiple forms of electronic payment processing including credit/debit transactions, ACH and others. When customers make a payment with a bank card through these channels, they are subject to a \$2.00 fee paid to FISERV. PSE receives no portion of the \$2.00 fee.

21 PSE limits the amount of each bank card payment to \$1,100, and limits the number of times a bank card can be used to three times in a 30-day period. Effectively, these rules limit card usage to residential customers; however, they do not specifically exclude a small-business customer from paying with a bank card.

22 PSE believes residential and small-business customers should not be charged a fee for payments made through any of its payment channels.<sup>6</sup> The requirement to pay a fee when making a payment with a bank card is one of the largest frustrations customers express and has become antiquated in most consumer transactions. Because most commercial entities now do not charge an additional fee for a bank card payment, customers have grown accustomed to paying for products and services with a bank card without a separate, additional fee.

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<sup>6</sup> Because commercial customers generally have more methods in which to pay, and their average payment amount is significantly higher than residential, which leads to higher processing costs, at this time PSE is not proposing a fee free program for commercial customers.



**D. Survey of Surrounding Utilities and Public Service Providers**

23 Most Washington utilities and public service providers do not charge a fee for bank card payments. For example, in PSE's service territory, customers of Seattle City Light, Snohomish County PUD, and Tacoma Power do not pay a fee for making a payment with a credit or debit card. Also, customers of service providers for garbage (i.e., Waste Management), cable (i.e., Comcast), phone (i.e., CenturyLink), and cellular phones (i.e., AT&T, Sprint, T-Mobile or Verizon) do not pay a fee. In addition, comparable investor owned utilities such as NW Natural Gas and Portland General Electric offer a fee-free payment program to residential customers. Thus, compared to other utilities and other public service companies in this region, PSE is a minority in its continued assessment of a payment fee. Table No. 5 below shows the utilities/services companies in the Puget Sound region that take bank cards as a payment type. Of the 22 companies, 18 or 82 percent do not charge an additional fee when accepting payment from bank cards. This regional market dynamic leads to customers being dissatisfied with PSE, as they fail to understand why PSE would charge a fee for a convenient method of payment when other similar companies do not.

**TABLE NO. 5**

<b>Utility</b>	<b>Fee Y/N</b>
<b>Waste</b>	
Allied Waste / Rabanco	N
Waste Management	N
<b>Cable/Internet/Voice</b>	
Century Link	N
Comcast	N
Direct TV	N
<b>Telecom</b>	
AT&T	N
Sprint	N
T-Mobile	N
Verizon	N
<b>Water / Sewer</b>	
City of Bellevue	N
City of Kirkland	N
City of Redmond	N
City of Renton	N
Northshore Utility District	N
Seattle Public Utilities	N
<b>Electric Utilities</b>	
Seattle City Light	N
Snohomish County PUD	N
Tacoma Power	N
<b>Convenience Fee Charged</b>	
Avista	Y
CleanScapes	Y
Sammamish Plateau Water & Sewer District	Y
Woodinville Water	Y
<b>Total</b>	<b>22</b>
No's	18
Yes's	4

**E. PSE’s Other Administrative Costs Are Spread To All Customers**

24 It is typical for utilities to spread administrative costs associated with payment processing and collection to all customers. As it exists today, all PSE customers pay for all payment transaction costs incurred by the Company, regardless of the type of payment cost (except for bank card payment transactions). The costs are included in the Company’s regulated operating expenses. Table No. 6 below shows average cost per unit for all of PSE payment types. The table illustrates that transactions, revenue, and cost vary depending on the type of payment method. All costs for processing these payments, as well as costs associated with producing e-bills and paper bills, are allocated to all customers through the base rate and are not borne exclusively by those customers who drive the costs with the exception of bank cards.<sup>7</sup> Bank card processing costs are the sole payment processing cost that is borne exclusively by the cost causer as a pass-through fee.

**TABLE NO. 6**

2015 Payment Processing	2015 Transaction Count	Payent Mix (By Count)	Annual Revenue Collected	PSE Cost to Process	PSE Average Cost per Transaction	Customer Cost to Process	Customer Cost Per Transaction
Mail-In (Lockbox)*	5,241,509	33.3%	\$ 1,369,680,616	\$953,077	\$0.18		\$0.00
Electronic Payment	8,624,536	54.7%	\$ 1,082,943,369	\$1,678,928	\$0.19		\$0.00
Credit/Debit Card	1,296,639	8.2%	\$ 206,414,117	\$0	\$0.00	\$2,593,278	\$2.00
Pay Stations (3rd Party)	290,642	1.8%	\$ 39,266,120	\$219,995	\$0.76		\$0.00
PSE Business Offices	163,803	1.0%	\$ 70,998,321	\$813,972	\$4.97		\$0.00
Field Collections	49,373	0.3%	\$ 9,067,045	\$2,702,384	\$54.73		\$0.00
Collection Agencies	20,366	0.1%	\$ 1,836,117	\$460,297	\$22.60		\$0.00
Other Payments**	72,696	0.5%	\$ 192,896,526	\$106,565	\$1.47		\$0.00
<b>Total</b>	<b>15,759,564</b>	<b>100.0%</b>	<b>\$ 2,973,102,229</b>	<b>\$6,935,218</b>	<b>\$0.44</b>	<b>\$2,593,278</b>	<b>\$2.00</b>

\*Customers have free methods to drop off checks, or can mail in with cost of a stamp.

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

25 The fee-free program is similar to other programs offered to residential and small-business customers, but paid for by all customers, including the following:

<sup>7</sup> To calculate costs, PSE aggregates all third-party fees, labor, equipment, supplies, and other operating costs associated with processing payments per channel. The cost per transaction for any method does not include Call Center costs associated with assisting customers and payment questions.

- a. *PSE HELP* – HELP provides energy assistance to low income and senior residential customers and is paid for by all customers.
- b. *Payment channels* – as noted above, costs incurred to provide payment channels such as by mail, pay station, or online are included in regulated operating expense and not borne exclusively by those specific customers that use each payment channel.
- c. *Electronic billing* – individual customers do not receive a discount for signing up for electronic billing; rather reduction in costs to print and mail physical bills is a benefit received by all customers.

**F. Fee-Free Payments Benefit All Customers Including Low-Income Customers**

26 Payment fees can be burdensome for customers that have limited options for making payments. For example, many low-income customers use pre-paid debit cards distributed as social services benefits.<sup>8</sup> Since March 2013, all Social Security and other federal benefits are now distributed to recipients by direct deposit or loaded onto a card. This means new segments of customers will be using pre-paid debit cards to pay their monthly bills. As emphasized in the National Association of State Utility Consumer Advocates (“NASUCA”) Resolution 2012-07, “Urging Utilities to Eliminate ‘Convenience’ Fees for Paying Utility Bills with Debit and Credit Cards and Urging Appropriate State Regulatory Oversight,”<sup>9</sup> charging low-income customers an additional payment fee is an undue and unnecessary burden:

***URGING UTILITIES TO ELIMINATE “CONVENIENCE” FEES FOR PAYING UTILITY BILLS WITH DEBIT AND CREDIT CARDS AND URGING APPROPRIATE STATE REGULATORY OVERSIGHT***

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<sup>8</sup> *DirectExpress*, BUREAU OF THE FISCAL SERVICE, [https://www.fiscal.treasury.gov/fsservices/indiv/pmt/dirExpss/dirExpss\\_home.htm](https://www.fiscal.treasury.gov/fsservices/indiv/pmt/dirExpss/dirExpss_home.htm).

<sup>9</sup> *Resolution 2012-07 Urging Utilities to Eliminate “Convenience” Fees for Paying Utility Bills with Debit and Credit Cards and Urging Appropriate State Regulatory Oversight*, NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES (Nov. 13, 2012), <http://nasuca.org/2012-07-urging-utilities-to-eliminate-convenience-fees-for-paying-utility-bills-with-debit-and-credit-cards-and-urging-appropriate-state-regulatory-oversight/>.

*Whereas, some individuals, particularly those who lack access to bank accounts and to credit, by one estimate numbering roughly 50 to 70 million,[iv] are unable to write traditional checks or to direct electronic transfers and are therefore finding it difficult to pay utility bills without incurring additional charges; and*

*Whereas, the convenience fees are making it unnecessarily costly for utility customers, especially low income customers and customers struggling financially due to illness, layoffs or other reasons, to meet their payment obligations and hence to maintain essential utility services; and*

*Whereas, the conveniences fees make it hard for low income customers, when paying utility bills, to use the payment method that is often most available to them, namely, prepaid debit cards;[viii] and*

*Whereas, convenience fees imposed on debit card use undercut the policy objectives of federal programs (for example, social security) and state programs (for example, child support and unemployment compensation) that issue prepaid debit cards to beneficiaries as an effective and cost-efficient way to manage operational expenses,[ix] by eroding the purchasing power of such cards; and*

*Whereas, convenience fees repeatedly assessed against utility customers who make multiple payments during the course of a month undercut these customers' ability to apply scarce available funds to payment of actual utility services . . . .*

27 Meeting customer expectations drives PSE's advocacy for recovering the cost of bank card convenience fees in rates. The more the Company can do to reduce barriers for customers to pay bills, the more it will benefit all customers. Customers that self-serve, pay on time, and are satisfied with their payment options are the least expensive to serve, which benefits all customers. Conversely, customers that are not satisfied tend to call Customer Service more frequently, increasing Company operating costs. This means that every call that can be avoided leads to savings for all customers.

28 Moreover, more customers electing credit or debit card recurring payments will reduce the level of expensive and inefficient bill collection systems such as reminder calls and emails, and mailed notices for late payments, which also increases costs. Giving customers options to pay by the method of their choice without incurring additional fees will lead to more satisfied customers overall and ultimately result in savings for all customers.

#### IV. PROPOSED ACCOUNTING TREATMENT

29 PSE requests an order authorizing the deferral of all third-party fees paid by PSE related to offering a fee-free program for payment of bills by residential and small-business customers. PSE proposes to begin the fee-free payment program within two months upon approval of this Accounting Petition by the Commission. The deferral of fees paid by PSE would begin in the same month in which the program begins. PSE will seek recovery of the estimated first-year program costs in its upcoming general rate case, to be filed no later than April 1, 2016.

30 PSE also proposes to continue to defer costs above, or below, those established in base rates for up to 36 months or until the following general rate case to address the anticipated ramp up in participation rates that will likely occur during the first three years.

31 Based on conversations with payment processing vendors and internal modeling, PSE expects the payment mix for bank cards will grow from eight percent today to as high as 25 percent over three years. During the first year, PSE expects a similar growth rate as experienced when there was a reduction in fee from \$4.95 to \$2.00 in 2014. Therefore, it is expected in year one with no fee, bank cards will grow from the current eight percent to 14 percent. After the first year, PSE expects a slightly slower growth rate so that by 2019 as much as 25 percent of PSE's payment mix could be bank cards.

32 Under PSE's proposal for fee-free program, the cost per transaction would be lower, as PSE would have access to the utility pay programs offered by the major card networks at a lower rate. As noted above, PSE anticipates its processing cost to offer a fee-free program would be approximately \$1.50 per transaction as compared to the \$2.00 charged to consumers today. This would reduce the total consumer cost for paying by bank card approximately 25 percent. As summarized in Table No. 7 below, if the program was launched in July 2016, this

would result in an additional cost to PSE of \$3 million in year one of the program, growing to \$6 million in year three, assuming up to 25 percent of PSE customers use a bank cards.

33 Table No. 7 contains a forecast of bank card transactions for three years:

**TABLE NO. 7**

<b>3 Year Forecast to 25% of Payment Mix with No Fee Starting June 2016</b>			
	Year 1	Year 2	Year 3
Card Transactions	2,255,693	3,137,481	4,019,269
Percent of Mix	14%	20%	25%
Growth Rate	64%	39%	28%
Cost*	\$ 3,383,540	\$ 4,706,222	\$ 6,028,904

\*Cost is transactions multiplied by \$1.50 (estimate of average processing costs that PSE would incur).

34 The Company requests approval of a deferral of actual costs up to 36 months or until the following general rate case. The Company will provide updates to the Commission every three months after the program is implemented on the deferred balance, which will include participation rates and fees incurred by month.

35 The Company proposes to amortize and recover the costs from all customers over a three-year period with no return accrual on the unamortized balance.

36 The Company requests to defer the costs in Account 182.3 – Other Deferred debits for future inclusion in rates. A summary of the accounting entries follow:

**SUMMARY OF ACCOUNTING ENTRIES**

<b><u>FERC Acct. No.</u></b>	<b><u>Account Description</u></b>	<b><u>Debit</u></b>	<b><u>Credit</u></b>
407.3	Regulatory Debits - Amortization	\$ 100	
182.3	Other Regulatory Assets		\$ 100
	<i>To record amortization of customer payment transaction fees.</i>		
<b>Note: Associated current and deferred income taxes will be recorded.</b>			

<b><u>FERC Acct. No.</u></b>	<b><u>Account Description</u></b>	<b><u>Debit</u></b>	<b><u>Credit</u></b>
903.X	Customer Records and Collection Expenses	\$ 100	
232.1	Accounts Payable - General		\$ 100
	<i>To record payment of customer payment transaction fees.</i>		
182.3	Other Regulatory Assets	\$ 100	
407.4	Regulatory Credits - Deferral		\$ 100
	<i>To record deferral of customer payment transaction fees.</i>		
<b>Note: Associated current and deferred income taxes will be recorded.</b>			

**V. REQUEST FOR RELIEF**

37 PSE respectfully requests that the Commission issue an Order approving the deferred accounting and ratemaking treatment of the costs incurred for PSE to offer a fee-free payment



program for residential and small-business customers, as set forth in this Petition. Recovery of the deferred costs would occur through PSE's general rate cases, as explained in this Petition.

DATED this 12th day of February 2016

By:   
Ken Johnson,  
Director, State Regulatory Affairs,

**VERIFICATION**

STATE OF WASHINGTON )  
 )  
County of King )

Ken Johnson, being first duly sworn on oath, deposes and says: That he is a Director, State Regulatory Affairs, for PSE and makes this verification for and on behalf of said corporation, being thereto duly authorized;

That he has read the foregoing Petition, knows the contents thereof, and believes the same to be true.



SIGNED AND SWORN to before me on this 12<sup>th</sup> day of February 2016



KJ Campbell

NOTARY PUBLIC in and for the State of Washington, residing at Belleme, WA

Commission Expires: 7/18/16